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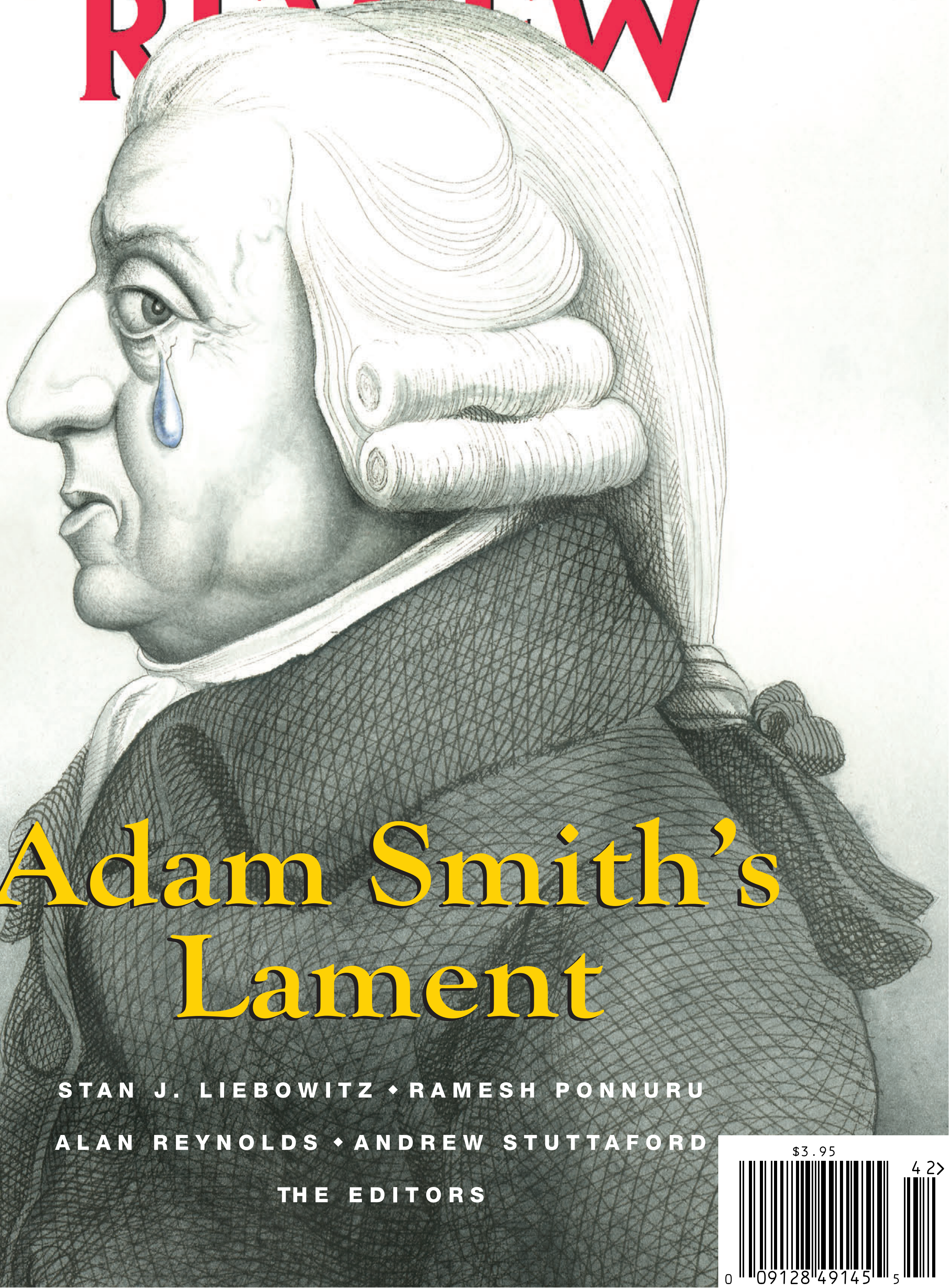
Is There a Bradley Effect? ◆ How Palin Governed

NATIONAL REVIEW



Adam Smith's Lament

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OCTOBER 20, 2008 VOL. LX, NO. 19

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■ ON THE COVER

Anatomy of a Train Wreck

Why did the mortgage market melt down so badly? The fundamental answer is that, in an attempt to increase homeownership, an attack on underwriting standards has been undertaken by virtually every branch of the government since the early 1990s. *By Stan J. Liebowitz*

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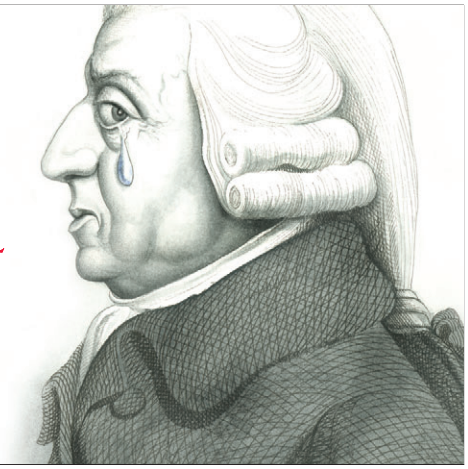

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letters to the editor

HAVE A DRINK ON US

Discussing a group of college presidents (the Amethyst Initiative) who want to lower the drinking age from 21 to 18 ("The Week," Sept. 15), you say "there are good arguments for lowering the drinking age," but don't list any.

The old bromide "If you're old enough to fight for your country, you're old enough to drink" is inane. The service teaches you how to shoot a gun, how to respect your weapon. Who teaches 18-year-olds how to drink? How to respect liquor? So they learn the hard way—which results, too often, in death.

Joe La Zizza
New Milford, N.J.

THE EDITORS REPLY: It's true that novice drinkers "learn the hard way," but this would be true with any drinking age. The question of where exactly to draw the line is too complicated to discuss in this space, but in general we prefer to let adults make their own decisions. The best way to stop them from harming themselves and others is by educating teenagers and enforcing drunk-driving laws, not by abridging the rights of an entire group.

A-COMIN' TO SET THE RECORD STRAIGHT

Rob Long has such a good ear for the varieties and styles of American speech that I was disappointed in his otherwise amusing piece on Sarah Palin ("The Long View," Sept. 29). It ends with her saying, "We're a-comin' to gitcha!"

The lack of a final "g" on "coming" is certainly accurate; she drops them "like there's no tomorrow," as one friendly reporter put it. But in general she speaks a normal variety of northern-continental standard American, without prefixed "a-comin'." And forget "git" for "get." She doesn't fake down-homeyness.

Long's linguistic characterizations fit Mrs. Obama's speech more closely. In a brief clip I viewed, she says "attinned" for "attend," "whirl" for "world," and "git" for "get." However, I think she may be trying to code-switch, as the linguists say—she tries to change her "Iraq" from real-people "eye-rack" to elite "ee-rock," but comes up with "eye-rock." So maybe she's as phony as her hubby.

Richard L. Leed
Ithaca, N.Y.

ROB LONG REPLIES: I confess wholeheartedly to taking liberties with Palin's dialect—I was going for a kind of Annie Oakley vibe, a go-getter frontiersgal sort of thing. Artists of my stature—your Oliver Stones, your Al Gores—occasionally have to bend the facts to suit the joke.

GO EAT URANIUM

Richard Brookhiser—I enjoyed your column "Built to Last" (Sept. 15), but don't become too enamored of that '30s Fiestaware. It could be hazardous to your health.

I searched the trivia sector of my ancient mind, and it told me that orange and red Fiestaware from that era may be radioactive. A Google search confirmed that my 84-year-old brain is still functioning. The message is: "Don't eat or drink from red or orange Fiestaware."

If you have access to a Geiger counter, check it out.

Charles E. Small
Westford, Mass.

RICHARD BROOKHISER REPLIES: Maybe that's why my prose glows.

TOUCHÉ

On page 10 of your Sept. 29 issue ("The Week"), you mention that Asif Ali Zardari has a chance for the presidency only because he could stand in for his widow, Benazir Bhutto. If he has a widow, isn't he dead?

Linda Hagglund
Norton, Mass.

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THE WEEK

■ Cheer up! Things could get much worse.

■ The financial blizzard and the first debate have lit up the presidential candidates like flares. John McCain is a man of the Senate, proud of its friendships, and reveling in the free hand that senators are given. He uses his stature to express the same nature he showed as a Navy pilot: aggressive, risk-taking, self-directed. Barack Obama is professorial, and writerly; he intellectualizes problems, the better to distance himself from them. Because he is eloquent, Americans have been slow to appreciate his underlying stance, though they may be starting to. We have put both types in the White House before (Andrew Jackson and TR for McCain, John Quincy Adams and Woodrow Wilson for Obama), with mixed results. McCain is a hero, possibly a leader, hopefully an executive; Obama would be the ideal historian of the Obama administration. We hope Bismarck was right when he said that God looks out for drunkards, children, and the United States.

■ McCain says our corporate-tax rates are among the highest in the industrialized world, and wants to cut them. Barack Obama says we have low corporate taxes based on how much revenue they bring in. They are both right: We have high rates that bring in little revenue. Maybe McCain is on to something?

■ Obama adds that we have "tax breaks" for companies that send jobs overseas. What he means is that we let such companies pay foreign taxes and pay our taxes only when they bring their profits home. Making them pay both sets of taxes simultaneously is a formula for making them uncompetitive abroad. Obama talks a lot about restoring our leadership in the world. Apparently he does not have economic leadership in mind.

■ If you listened only to Obama, you would think that McCain's health-care plan consisted entirely of taxing health benefits. It's nice to hear that there are tax increases of which Obama disapproves. Over time, the McCain plan would amount to a net tax increase, since it would replace the unlimited tax break for employer-provided insurance with a limited break for both employer-provided and individually purchased insurance. But McCain plans to cut other taxes, and the net effect would be to give people more control over a higher percentage of their wages. Obama is adept at exploiting the rhetoric of markets, but their substance still eludes him.

■ Obama ran an ad saying McCain favored "cutting Social Security benefits in half" and "risking Social Security on the stock market." Actually, it was the last Democratic administration that proposed having the government invest Social Security funds in stocks. McCain wanted to let young workers invest some of their Social Security payments for themselves, if they so chose, and to reduce the rate of growth of benefits for high-income workers. Every time there is a bear market, liberals say that the idea of reforming Social Security is forever discredited. But over the long run, stocks are a good investment; ditto free markets.

See page 8

R. Genn
rgenn.com

ROMAN GENN

■ Obama and his allies have shown an unhealthy zeal for suppressing critical speech. His campaign has instructed its acolytes to drown out radio interviews with critics such as Stanley Kurtz and David Freddoso (both of whom are NR regulars). It has sent menacing cease-and-desist letters to television stations airing NRA ads against him. The *New York Times* has editorialized against letting ads on Obama's extremist pro-abortion record be aired. The ads say that Obama favors taxpayer-funded abortion, which the *Times* calls a lie and a smear. It happens to be true: Obama has sponsored legislation to this effect. (All the news that's fit to print, if it favors the Democrats.) The Democrats are confident this year, but they won't leave anything to chance, or freedom.

■ The assault on Sarah Palin, psychotic in intensity and irrelevance, continues. Comedienne Sandra Bernhard warned Palin that she would be "gang-raped by my big black brothers" if she

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campaigned in Manhattan. Just a potty-mouthed funny woman? Then what about Rep. Alcee Hastings, who told an audience of Jewish Democrats in Florida that “anybody toting guns and stripping moose don’t care too much about what they do with Jews and blacks”? Or Rep. Charles Rangel, who prefaced a discussion of Palin by saying, “You got to be kind to the disabled.” Meanwhile, hackers who broke into her private e-mail account and posted (innocuous) messages online defended themselves by saying she was conducting government business there. Huh? Aren’t the usual grounds for outrage that a politician uses a government account for private business? Some Democrats, when pressed, back off: Rangel said he should have called Palin “disadvantaged,” while Rep. Artur Davis of Alabama, who was present during Hastings’s rant, warned his fellow Democrats that they “had better win enough of those gun toters if we are to be successful.” Warning wasted, congressman. They are unhinged, they are flying, they can’t help themselves.

■ Conservatives must acknowledge that Palin has real shortcomings, besides the fantasies projected onto her by her enemies. By all accounts she has been a competent mayor and governor, moving smoothly from the lesser position to the larger. But her knowledge of a range of national and foreign affairs is startlingly skimpy; her inability to turn questions on such matters to her strengths highlights her weakness. In an earlier time, no one cared much what vice presidents thought; it is also true that some opinionated veeps had very bad opinions (Henry Wallace, Andrew Johnson, Aaron Burr). But Sarah Palin is running now, during a war (which was predictable) and a financial crisis (which was not). She must cram. We expect she would grow on the job, but she has little time to grow before Election Day.

■ Something interesting and unusual happened at the end of September. Joe Biden made a grossly inaccurate political statement. That is neither interesting nor unusual. But the news media—even the mainstreamers—jumped on him for it. And that is. Biden had said that McCain’s health proposals would be “the largest tax increase in the history of America for the middle class.” Not true, as the papers reported. Biden also committed a

Sale of the Century

As policymakers huddle in Washington and scheme up plans to end this financial crisis, markets around the world have continued to panic. Such a response may well reflect a prudential understanding of Congress’s innate inability to respond rationally to nearly any economic circumstance, let alone a crisis.

But part of the problem may well be a kind of myopia. All crises end, and this one will too. It will end not because of a government intervention, but rather because asset prices have adjusted to the point that taking risk makes sense again. Governments do not have enough resources to purchase all of the world’s risky assets. Investors do.

In other words, bargain hunting is the only thing that can save us.

So when can we expect bargain hunting to begin? By definition, it should occur when asset prices have moved to the point that the scenario priced into asset values is so negative that it could not possibly occur. At that point, taking on risk is attractive, precisely because profit can be expected.

Have prices of risky assets fallen to that point? There are numerous signs that they have. The nearby chart provides one such example.

The chart plots the difference between the rate that the world’s most prominent banks pay one another in order to borrow money for three months and the three-month U.S. Treasury rate. The first rate is called the LIBOR, or the London Inter-Bank Offered Rate. Their difference is known in the industry as the “TED spread.”

If Deutsche Bank borrows money from J. P. Morgan for three months and pays it 4 percent interest, and the three-month U.S. Treasury rate is 3 percent, then the spread on the chart would be 1 percent. Over history, this spread has been about half a percentage point. In late September, it climbed to the highest it has ever been, 3.5 percent.

In other words, if you lent money to Deutsche Bank for three months at the end of September instead of purchasing a Treasury, you got 3.5 percent more interest.

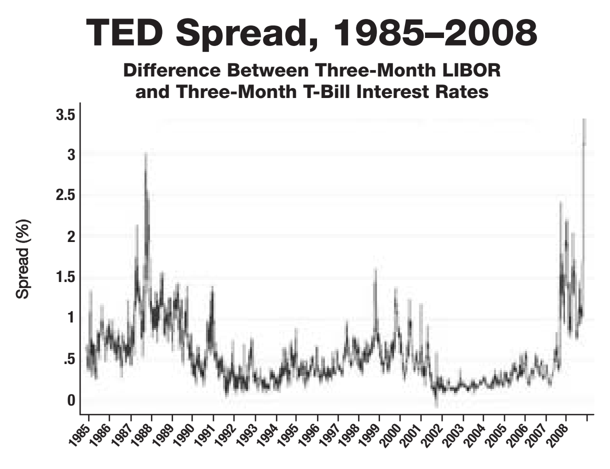
Such a high interest rate makes sense only if there is a high probability that Deutsche Bank will default on its debt over the next three months. But such a default is almost impossible. Surely, if such a big institution were to approach failure, governments would step in.

The TED spread is just the tip of the iceberg. As of late September, AAA-rated ten-year bonds were priced as if the probability of default for the bluest of blue-chip firms were 39 percent. If 39 percent of AAA firms default on their debt, then we will not have an economy left. It cannot happen.

The financial panic has advanced to the point where interest rates for even minuscule risks are absurdly high.

At some point, hopefully soon, investors will notice that, and financial markets will begin to reverse themselves.

—KEVIN A. HASSETT



Global warming demands action.

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We're not waiting.

The science is overwhelming. Climate change is happening now, and greenhouse gases (GHGs) due to human activity are a leading cause.

In the United States, the power industry accounts for 40% of all GHGs. Some in Washington are developing legislation to limit GHG emissions from all sources, and we strongly support those efforts. But as the nation's largest electric and gas utility, and as a member of the U.S. EPA's Climate Leaders Program, we are acting now.

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It's an ambitious plan that will require a total commitment at all levels in the Exelon family of companies. And that's precisely what we intend to do. For details, go to exeloncorp.com.

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boner when he suggested that FDR had gone on television to reassure Americans after the Great Crash. He will never taste the derision or opprobrium that is Palin's daily fare. But at least he has not gone unnoticed.

STAN HONDA/AFP

■ When you have a hammer in your hand, goes the saying, everything looks like a nail. On roughly the same principle, when you've been awarded an Oscar and a Nobel Peace Prize for climate-change alarmism, everything looks like a climate crisis. It was therefore not surprising to hear Al Gore, speaking at a "green technology" conference in San Jose, tell us that the financial crisis and global warming are one and the same. "I think we need to bail-in renewable energy," he said. Later, speaking in New York, he elaborated: "The world has several trillion dollars in sub-prime carbon assets," frothed the former vice president. Yes, yes, it's all of a piece, Al. Securitize the polar ice caps! Deposit insurance for the rain forest! Foreclosure relief for wind farms! (When do the men in white coats get here?)

■ Gore has also called for environmentalists to engage in "civil disobedience" to stop the construction of new coal-fired power plants unless those plants are outfitted with certain green technologies. Gore is a partner in the $5 billion private-equity fund Generation Investment Management Ltd., which happens to invest in green technologies. "Civil disobedience" is an action directed against one's government; the word for comparable assaults upon one's business rivals is "extortion."

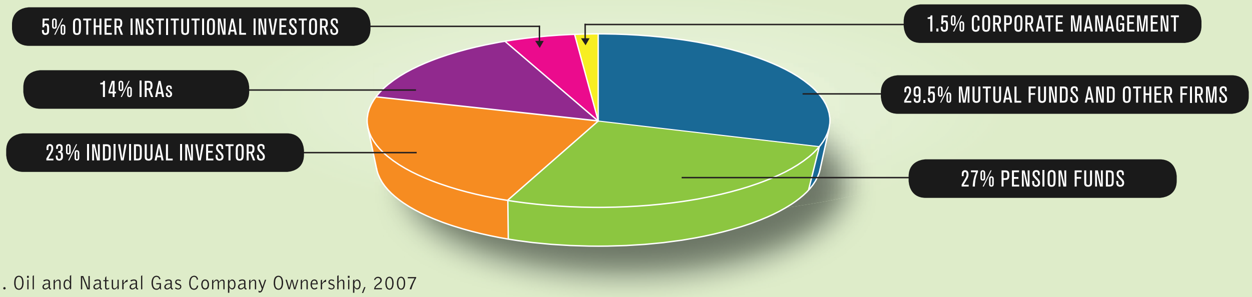
■ Charlie Rangel never disappoints us. Last issue, we noted that the congressman had been accused of not paying taxes on a condo he owned in the Dominican Republic, and before that, his ability to acquire four rent-stabilized luxury New York apartments raised eyebrows. Now, even some members of his own party have asked him to step down from his chairmanship of the House Ways and Means Committee—for the condo taxes and apartments, and also for allegedly using official government stationery to ask for donations to a City University of New York building (which, coincidentally, was to be named after Rangel). Oh, and he converted one of those rent-stabilized apartments into his campaign office, and three months ago promised to move out. As of this writing, he has not. The House Ethics Committee has launched an investigation, and we cannot wait for the results.

■ With the public backing offshore drilling by a margin of two to one, Democrats in Congress could not muster the votes to keep America's coastal waters off-limits (for the details, see "Gangster Politics" on page 26). On October 1, the congressional ban on offshore oil and gas leasing expired, technically freeing up nearly 18 billion barrels of oil and 76 trillion cubic feet of natural gas. We say "technically" because the victory is by no means secure. Lawsuits and red tape will delay the permitting process long enough for Democrats to have another shot at reinstating the ban after the elections. Democrats are telling their supporters in the environmental movement: If you want to keep America's offshore energy resources locked up, then sue, sue, sue, and vote for Barack Obama.

■ The Clarion Fund, a non-profit organization, purchased ad space in dozens of major newspapers and periodicals (including NATIONAL REVIEW) to distribute some 28 million DVD copies of *Obsession: Radical Islam's War Against the West.* Using fiery footage from Arab television, insider accounts from a former terrorist, and expert interviews, the film contends that the militant strain of Islam is every bit as threatening as Nazism. Regardless of whether one agrees, *Obsession* is not a campaign production: It has no connection to either candidate or the presidential election. The distribution, moreover, seemed clearly timed to coincide with the seventh anniversary of 9/11. Yet, because the distribution was allegedly concentrated in several "swing" states, the Council on American-Islamic Relations—which is the creation of a Hamas spin-off, and masquerades as a civil-liberties organization while advocating for terrorists and against sensible national-security measures—filed an FEC complaint. Essentially, it argues that the distribution was a transparent Zionist plot to promote the McCain campaign. However unintentionally, CAIR's speech-suppression ploy is useful: At least we know which candidate the jihadists and their apologists think will take the war seriously.

■ Obama and Biden have suggested that, if elected, they may attempt to prosecute members of the Bush administration for alleged criminal offenses. Their campaign literature has even raised the possibility of "war crimes" tribunals. The Democrats walk a fine line: Their hard-Left base bays for blood, but Americans have a native suspicion of political prosecutions. Feelings vary widely and passionately about the decision to topple Saddam Hussein, about eavesdropping on our enemies, about interrogation tactics, and the like. Many citizens are disquieted by some or all of these measures; many others—more, we suspect—see increased vigilance as the price of preventing attacks on our nation. But across the political divide, there is a sensible understanding among Americans that these disputes are political differences, not legal ones. They are the stuff of elections, not indictments. It is tyrannies and banana republics, not mature democracies, that criminalize policy disputes.

■ The federal government, like the House of the Lords, has many mansions—so many that you might go a whole lifetime without hearing of the more obscure ones. Take, for example, the U.S. Railroad Retirement Board. This agency was established in the 1930s to provide retirement, survivor, unemployment, and disability benefits to railroad employees. (Who do not pay ordinary Social Security taxes. Did you know that?) It turns out that someone in the RRB has been asleep at the switch, as it were. An investigation by the *New York Times* showed that a local office



U.S. Oil and Natural Gas Company Ownership, 2007

Do you own an oil company?

If you've ever wondered who owns America's oil and natural gas companies, chances are the answer is, "you do."

Surprised?

The fact is that if you have a mutual fund account – and 55 million American households, with a median income of under $70,000, do – there's a good chance it invests in oil and natural gas company stocks. If you have an IRA or personal retirement account – and 45 million U.S. households do – there is a good chance it invests in energy stocks.

Tens of millions of Americans own a piece of the U.S. oil and natural gas industry

All this comes from a recent study* of U.S. oil and natural gas company ownership headed by Robert J. Shapiro, undersecretary of commerce for economic affairs under President Bill Clinton.

According to the study, the majority of the industry's shareholders are "middle-class U.S. households with mutual fund investments, pension accounts, other personal retirement accounts, and small personal portfolios."

What many may find particularly surprising is that our industry's corporate management owns only a tiny fraction of company shares.

Specifically, here is what the study found:

- 29.5 percent of U.S. oil and natural gas company shares are owned by mutual funds and other firms
- 27 percent are owned by pension funds
- Individual investors own 23 percent
- 14 percent are held in IRA accounts
- 5 percent are owned by other institutional investors
- 1.5 percent are held by corporate management (significantly less in the largest companies)

These findings tell us something very important: tens of millions of Americans have a stake in the U.S. oil and natural gas industry. When the industry's earnings are strong, the real winners are middle-class Americans, people investing in their retirement security or saving for their children's college education.

So when the political rhetoric gets hot about increasing energy taxes or taking "excess profits" from U.S. oil companies, it is important to step back, look at the facts, and ask yourself, "who does that really hurt?"

To read the full study, visit EnergyTomorrow.org.

THE *people* OF AMERICA'S
OIL AND NATURAL GAS INDUSTRY

*SONECON: *The Distribution of Ownership of U.S. Oil and Natural Gas Companies*, September 2007

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of the agency has been handing out disability benefits to any employee of the Long Island Railroad who walked in, all the livelong day. In a recent year, 97 percent of employees who retired after the age of 50 applied for and received disability payments. Now FBI agents have raided the Long Island office of the RRB, so perhaps there will be an end to the scam. We are left wondering how many other alphabet-soup federal agencies are making free with the public fisc . . . and why we didn't listen to that wise uncle's advice to "Get a government job!"

■ Khalid Sheikh Mohammed, the 9/11 terror-plotter and mass-murderer, is being tried at Guantanamo Bay. But he is putting the judge on trial too. In court, he said, "There are some extremist organizations in America that are against us. If you, for example, were part of Jerry Falwell or Pat Robertson's groups, then you would not at all be impartial toward us." (Has he been listening to NPR?) The AP reported that the judge, Ralph Kohlmann, "responded that he doesn't belong to a church now but has attended Lutheran and Episcopalian services." Sounds safe enough—very reassuring. Then one of Mohammed's co-defendants, Ramzi Binalshibh, said, "As far as I know, your last name is Kohlmann, which is a Jewish name, not a Christian name." The judge denied this—no yellow stars for him. Thanks for clearing that up, judge. Keep in mind that the Left wants a *civilian* trial for these characters.

■ Iraq's parliament unanimously passed a law to hold local and provincial elections. It's an important step forward for political normalization in Iraq. It will allow Sunnis who sat out prior elections but subsequently rejected the insurgency to get political representation. In the Shiite areas, the religious parties have dominated, aided by a "closed list" electoral system that permitted people only to vote for party slates. The new law providing for an "open list" should make it easier for healthy grass-roots ferment outside the religious parties to achieve formal political expression. When the Iraqi parliament failed to pass the election law a few months ago, the press highlighted it as another Iraqi political failure. The passage of the law now has gone mostly unremarked.

■ President Bush spoke at the U.N., probably for the last time. During his address, "he urged world leaders to take 'an unequivocal moral stand' against suicide bombings, hostage taking and other terror tactics." (We quote a wire-service report.) When he was through, the audience gave him less than ten seconds of weak applause. During the speech itself, Iran's Ahmadinejad had given a thumbs-down—a literal thumbs-down. We suspect that in his heart the president was doing the same to the institution.

■ During his 33 months as prime minister of Israel, before resigning late last month, Ehud Olmert was not a success. In 2006 he was called on to respond to aggression from Hezbollah, the Islamist movement implanted in Lebanon by Iran. Everything he then did was misguided, and Hezbollah was able to claim victory. Afterwards Olmert appeared to concentrate solely on wishing the responsibility for his failure onto other ministers and senior officers. The opening of peace negotiations at the same time with the Palestinians and Syria seemed forlorn efforts to make himself indispensable, and visibly lacked conviction. Even the successful raid on Syria that apparently destroyed a nuclear facility ended up adding confusion to Olmert's intentions. Then there were the multiple corruption charges. In particular, he is accused of receiving envelopes of cash from an American well-wisher and double-charging on expense accounts. A huge majority of Israelis are shocked by what is alleged so far about Olmert's profiteering from office; no previous Israeli politician has had such unfavorable polls. Whether or not he is finally prosecuted, Olmert has made things difficult for his likely successor, Tzipi Livni, for his Kadima party, and for the peace process. Israel does not need that sort of turmoil at a critical time like the present.

■ The Kremlin is once again in the mood to lash out. President Medvedev has allocated $50 billion for next year's armaments program, which includes the construction of new types of warships, nuclear submarines, and a space defense system. The smashing of Georgia has thoroughly frightened everyone around Russia's borders, so Medvedev and his prime minister, Vladimir Putin, are having to look farther afield as they use their weaponry to create a new power bloc against the United States. Russia has put one protective arm around Iran in order to scupper international sanctions aiming to halt its nuclear program, and it is stretching its other arm out to the quasi-Communist or populist dictatorships of Bolivia and Venezuela, not forgetting the faithful Castros in Cuba. Russia has made a $1 billion military loan to Venezuela, announced an oil consortium, and dispatched two long-range bombers there. This November Venezuela will also stage joint military maneuvers with warships and 1,000 troops from Russia. Venezuelan president Hugo Chávez says he is merely supporting the work of a "strategic ally," but in case anyone misses the point, he and the like-minded Bolivian president, Evo Morales, earlier accused the United States of interfering in their internal politics and even conspiring to overthrow them, and have expelled the U.S. ambassadors. Evidently the old Soviet dream of power is alive and well in Moscow.

■ The U.S.-India nuclear-power pact has cleared the House of Representatives and been forwarded to the Senate, where it is expected to win approval. The deal is a milestone in relations between the world's largest democracies and the product of deft statesmanship on the part of the Bush administration. ("Cowboy diplomacy" apparently works for Indians.) India is a natural confederate in the War on Terror and an important trading partner; recognizing its new status as a nuclear power costs America little and bonds us to an ally strategically located between Jihadistan and China. The pact also underlines how far behind the rest of the world the U.S. lags on civilian nuclear power: India will purchase its new state-of-the-art nuclear reactors from France. While the senators are considering topics nuclear, they might see if they can't clear away a few barriers to our own nuclear industry, too.

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THE WEEK . . .

■ This wasn't how it was supposed to go at all. Kim Jong Il, you may recall, promised to dismantle his nuclear program in exchange for a raft of foreign aid and eventual diplomatic normalization with the United States. He had made and broken similar promises before, but things were to be different this time, for some reason that no one bothered to explain very clearly. Well, guess what? Having spent the summer balking at U.S. proposals for a verification mechanism, the regime now says it will resume plutonium enrichment at its Yongbyon facility, and has barred International Atomic Energy Agency inspectors from the site. (Matters are complicated by the absence of Dear Leader from the scene: He has apparently had a stroke, and it's anyone's guess who is tyrannizing the country in his stead.) There are lessons here: Don't ease up on the pressure—the U.S. had succeeded in getting the U.N. Security Council to pass tough sanctions, which the deal nullified—in exchange for a mere promise; and don't mistake diplomatic chatter for actual progress.

■ Having survived the Black Death, the Great Fire, and Hitler's Blitz, the citizens of London have decided to subject themselves to a further test, the 2012 Olympic Summer Games. Construction of an Olympic park is under way. The first priority is . . . what? Why, to cater to Muslim sensibilities, of course. What on earth could be more important than *that*? London's Olympic organizers have accordingly issued detailed design rules for the 2012 facilities, including a mandate that at least some toilets in the Olympic park not point toward Mecca. Apparently Muslims are enjoined to face away from the holy city when relieving themselves. A harmless enough accommodation in itself; like the previous one, and the one before that, and the one before that . . .

■ Informal courts interpreting Muslim sharia law have long existed in Britain. Now their judgments can be enforced through the regular British judicial system if both parties agree to it in advance. Proponents call this just another form of alternative dispute resolution, but it's hard to believe that such arrangements will be free of coercion—particularly in situations such as marital disputes or domestic violence—or that the judgments will fit Western ideas of decency. The jurisdiction of sharia courts will inevitably continue to expand, and ensuring fairness and banishing corruption in them will be virtually impossible. Defenders of the plan point to Jewish courts, which operate under similar authority, yet these deal mainly with religious matters like kosher laws and ritual baths; they also decide civil cases among businessmen in fields dominated by Orthodox Jews, such as the diamond trade. A government-sanctioned religious system to rule everyday life for an insular people with little tradition of using regular courts is an entirely different matter. Any nation that prizes justice and its own continued existence will say to immigrants: Follow your own customs, but our laws.

■ Morton Sobell, at 91 the last living member of a spy ring that passed atomic and other military secrets to the Soviets, has finally admitted what a court found, and what unbiased historians had long accepted: that Julius Rosenberg was a spy. Sobell was sentenced to 30 years; Rosenberg and his wife Ethel were executed in 1953. The Rosenbergs were long a two-sided totem for the American Left: They were believed to be innocent, but if they had been guilty, it was no bad thing. Sobell himself still clings to aspects of this stance, saying "I helped an ally (admittedly illegally) during World War II," and "I chose not to cooperate with the government in 1950." He worshipped Stalin, who was trying to conquer the world, and whom he and Julius Rosenberg helped by betraying their country's secrets. Loose ends of the case remain, chiefly Ethel's degree of complicity: Did prosecutors wrongly file the maximum charge against her in order to break Julius? The case has outlasted the empire that Sobell and Rosenberg served.

NEWSCOM

■ Carnegie Hall opened its season, and the program was all-Bernstein. The late conductor, composer, and pianist would have been 90 this year. On the stage was the San Francisco Symphony, led by Michael Tilson Thomas. In the middle of the program, he gave a speech, as musicians are wont to do now. And in the course of this speech, he said—no, shouted—that Bernstein was "a proud LIB-ER-AL!" That's how he pronounced it: with three distinct, fist-shaking syllables. The crowd roared with delight and approval. It was a classic self-congratulatory New York moment. It could have taken place in North Korea, only the New Yorkers were more sincere, and better fed. Tilson Thomas went on to explain that Bernstein wanted to make music "to inspire a better world"—and we all know that only liberals hope for a better world. We will leave Bernstein's music to one side for the moment. What about his politics? He raised money for the Black Panthers when they were at their cop-killing height. The liberals of yesteryear would have considered it a slander to call him one of them.

■ Our college-age youngsters are such delicate blooms, they must be protected not only from insulting speech directed at them, but even from hearing scholarly explanations of what is, or has been, insulting speech. Such is the opinion of authorities at Brandeis University. Lecturing on Latin American politics last fall, sociology professor Donald Hindley told his students that Mexican immigrants to the United States used to be called "wetbacks." This is true. In fact the Eisenhower administration repatriated more than a million illegal Mexican immigrants in 1954 under a project officially named Operation Wetback. A student complained. The college bureaucrats, citing "significant emotional trauma" to the complainant, commenced an operation of their own against Professor Hindley, who had taught for 48 years at the college with no previous recorded complaints. A year later the case is ongoing, with the invaluable Foundation for Individual Rights in Education pushing to have Hindley's name cleared. Justice Brandeis, a great champion of free speech, would weep to hear this miserable story.

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THE WEEK...

■ In truth, neither the rebuilt Yankee Stadium (opened in 1976) nor Shea Stadium (1964) was a thing of beauty. The former seemed thrown together, full of narrow corridors and odd angles that weren't antique enough to be charming, while the latter never quite lost its transistor-radio feel. Not that it matters. No ballpark had a better urban backdrop than Yankee Stadium, with the Bronx County Courthouse and the elevated 4 train visible beyond the outfield wall, while Shea's endless vista of parking lots and Archie Bunker houses encapsulated post-war suburbanization. We're all for creative destruction, but why are these two perfectly serviceable structures being demolished so taxpayers can help the Mets and Yankees extract even more money from their fans? Never mind; that's a question for another time. Here we pay tribute to the departed. True New Yorkers are always nostalgic about the days before their neighborhoods improved; and in similar fashion, while the new stadiums will probably be better places to watch a game, Met and Yankee fans are certain to remain wistful for the clunky old piles where they learned to love America's greatest sport.

NEWSCOM

■ Comedian Sacha Baron Cohen, having made as much as can be made from his Borat character, is now working on a movie about Bruno, another of his alter egos. Bruno is a gay Austrian fashion designer, and the working title of the new movie is: *Bruno: Delicious Journeys through America for the Purpose of Making Heterosexual Males Visibly Uncomfortable in the Presence of a Gay Foreigner in a Mesh T-Shirt*. By way of forwarding the enterprise, Baron Cohen was recently spotted wearing Velcro and a blond wig, strutting the catwalk in a fashion show by real designer Agatha Ruiz de la Prada in Milan, Italy. Security guards quickly removed Baron Cohen, but presumably not before footage for the new movie had been gathered. All good clean fun; but, Sacha, how about a movie title that can actually fit on a marquee?

■ There is a bumper sticker across America that says, "Who would Jesus bomb?" This does a couple of things, of course: It mocks Christians who ask, "What would Jesus do?" In this, it is like the bumper sticker that shows the traditional Christian fish symbol, but with little "Darwin feet." At the same time, it mocks those who find the War on Terror necessary and right. Do not expect a bumper sticker that says, "Who would Mohammed bomb?" That might be more logical, because bombers across the world bomb in Mohammed's name. But it would be disrespectful of Islam. And, of course, the owner of the car might not live out the week.

■ Jeepers creepers, where'd you get those peepers? Paul Newman had them, all right, blazing blue, piercing as drill bits. But he brought some other qualities to his stardom, and his life: a commendable lack of vanity as an actor; a long and happy marriage to Joanne Woodward, his second wife; and years and millions of dollars worth of charitable giving, so much more focused and concrete than the usual star's turn at an anti-fur or pro-Darfur rally. That more than makes up for his lousy political opinions. Dead, at 83. R.I.P.

THE BAILOUT

Taking On Water

Treasury Secretary Henry Paulson's $700 billion rescue plan is palatable to no one. The price tag is huge. The bill was originally presented to Congress as all but a fait accompli. Paulson and Federal Reserve chairman Ben Bernanke have been underwhelming in selling the plan on Capitol Hill. It is hated by a public suspicious of the country's elites, whether in Washington or on Wall Street. Various experts have raised questions about whether the plan would work.

No wonder the bill went down on the first attempt to get it through the House, a victim of a Right-Left coalition. Ordinarily we would join the opponents. The unseemly rush to pass the bill and the establishment's sometimes bullying advocacy of it bear a resemblance to the fight over the amnesty bill last year. But the financial crisis is real. In a space of a few weeks, large investment banks as we have known them for decades disappeared from Wall Street. With a crisis of confidence affecting the entire system, banks are not loaning to one another and businesses are already having trouble getting credit, the lifeblood of the economy.

In such circumstances, the financial system needs a government backstop. Panics must be stopped because it is their very nature to damage the economy out of all proportion to reason. If this panic led to a prolonged slump, as it could, the likely result would be a lurch toward statism that would make the $700 billion bill seem a bargain.

As Paulson and Bernanke have repeatedly argued, the reason to stop a financial meltdown is not to save the irresponsible players who created this mess, but to save the rest of us from the consequences of their mess. So far, the "real" economy has weathered the financial turmoil amazingly well. But its health will not last if no one can get a loan. At the very least, we will likely face a sharp economic downturn on par with 1981–82 or 1974–75, and perhaps a disruption that will take years to work through. The cost of such an event would be far larger than that of the Paulson plan.

We think conservatives should do three things. The first is reluctantly to support the Paulson plan while trying to do everything to limit its scope and keep it temporary. That means continuing to resist left-wing add-ons, from giving bankruptcy judges the authority to rewrite mortgages to funneling funds to advocacy groups like ACORN. It means doling out the money necessary for the programs in tranches and ensuring adequate oversight.

Second, they should push additional policies that will minimize the crisis. These are proposals like reforming the mark-to-market accounting rules that have worsened the crisis (and have

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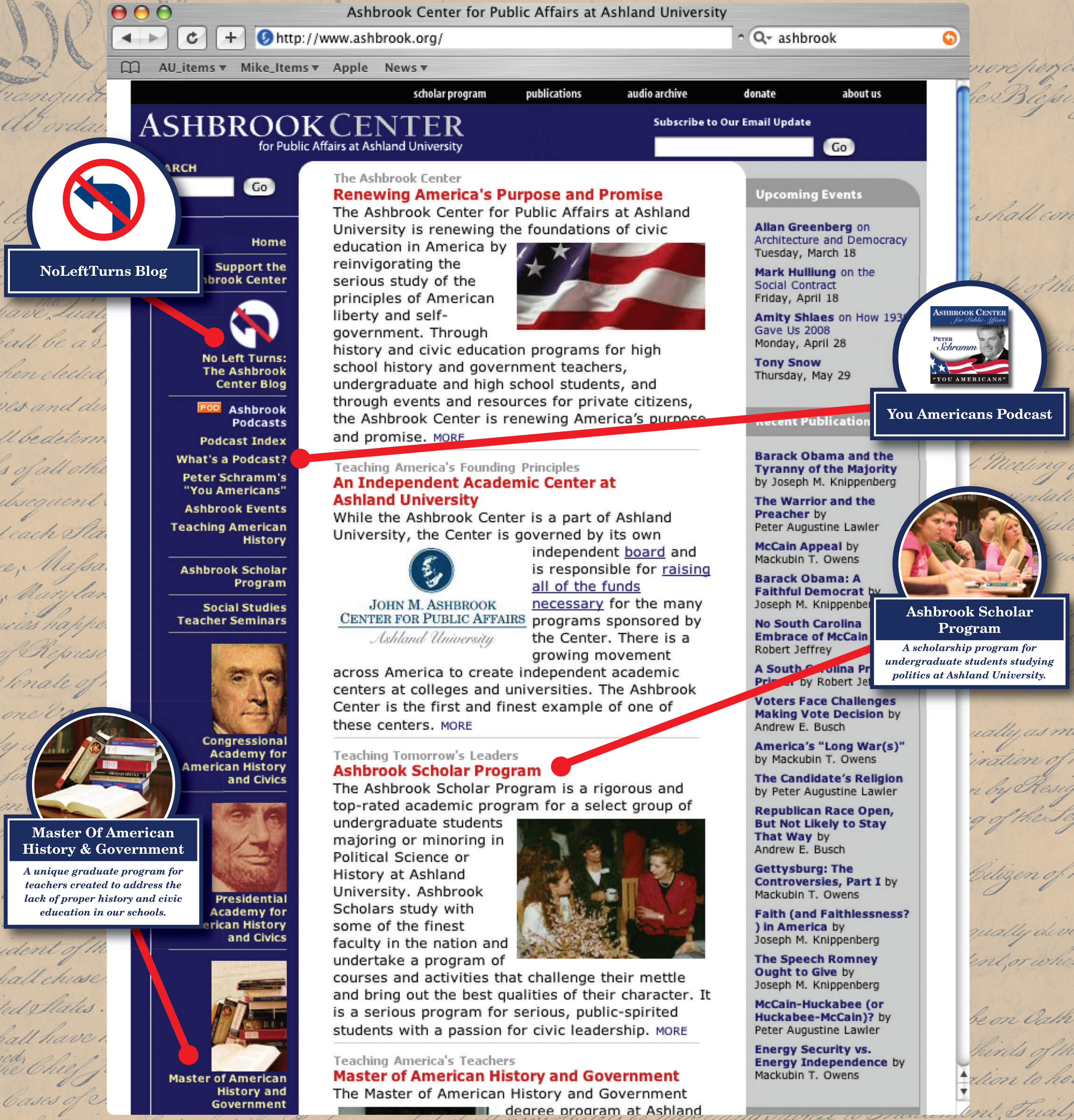
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at least been loosened by the SEC), suspending dividend payments by financial institutions, and allowing the Fed to pay interest on its reserves. Each step can help ease the crunch and increase capital in the system.

Finally, Republicans have to try to dig out of the hole in which this crisis—stoked by misbegotten government policies (see our next editorial)—has put us. Once the emergency has passed, Fannie and Freddie should be broken up and privatized. The government should end its stake in AIG, an otherwise profitable insurance firm caught up in the madness. And initiatives to cope with the recession that may be coming should be advanced. Cutting the capital-gains and corporate-tax rates—measures that some conservatives advocated in lieu of the Paulson plan—might not help in the immediate liquidity crisis, but they will put gas in the engine of economic growth over the long term.

American capitalism is endlessly adaptive, and has overcome much worse than either this credit crisis or the violence to our principles that the Paulson plan represents. It will overcome once again, provided that the invisible hand is not smothered by the overbearing hand of the Leviathan.

THE BAILOUT II

Anything-Goes Democrats

SHORTLY before the House rejected the $700 billion "bailout" of the U.S. financial system, Speaker Nancy Pelosi accused Republicans of causing the problem. She said, "They claim to be free-market advocates, when it's really an 'anything goes' mentality: no regulation, no supervision, no discipline." The timing of Pelosi's remarks was curious: One would think the moments before a tense vote in which Republican support is essential would be an occasion to avoid partisan attacks. Not our Nancy.

Pelosi's timing was off, but we agree in part with her assessment. An "anything goes" mentality toward two firms in particular contributed substantially to the financial meltdown. "No regulation, no supervision, no discipline" is definitely the right way to describe the attitude that allowed Fannie Mae and Freddie Mac to grow into unstable behemoths that helped inflate the housing bubble and left taxpayers holding a mountain of bad debt.

Of course, the "free-market advocates" pilloried by Pelosi long ago recognized the risks Fannie and Freddie posed to the financial system. Fannie and Freddie are government-sponsored enterprises (GSEs). As long as they've been around, investors have assumed that the U.S. government would never let them fail. Their implied taxpayer backing allowed them to borrow at low rates and maintain debt-to-equity ratios that would have caused concern at other firms.

Direct and indirect government subsidies allowed the GSEs to grow huge. Starting in 1970, they doubled the amount of mortgage debt on their books every five years—from $15 billion in 1970 to over $5 trillion when they finally collapsed. Free-market advocates warned that Fannie and Freddie's heedless growth was, to quote Alan Greenspan, "placing the total financial system of the future at a substantial risk." But the GSEs built an impressive lobbying machine to keep would-be regulators at bay.

Over the past ten years, Fannie and Freddie spent over $200 million on lobbying and campaign contributions. Democrats Chris Dodd, John Kerry, and Barack Obama—the top recipients of Fannie and Freddie largesse—have all broken the $100,000 mark. It should come as no surprise that Senate Democrats were the key obstacle to reforming Fannie and Freddie when Congress had a chance in 2005, before the mortgage crisis spiraled out of control.

Fannie and Freddie's defenders in the House were no better. Massachusetts Democrat Barney Frank maintained that Fannie and Freddie did not pose a risk to the financial system, even as they helped inflate the housing bubble by subsidizing mortgage debt. Then, when the bubble finally burst, Frank tried to loosen Fannie and Freddie's constraints so they could reinflate it. They might have succeeded if they hadn't collapsed, requiring a bailout from taxpayers that could cost as much as $200 billion.

Fannie and Freddie were not the only irresponsible players whose behavior led to the mortgage meltdown. The Federal Reserve held interest rates too low for too long, making mortgage debt look like a better investment than it was. The Community Reinvestment Act, championed by Democrats, coerced banks into lowering their credit standards to meet diversity targets. And certainly Wall Street deluded itself into thinking that relentless securitization could make risk disappear. But Fannie and Freddie were definitely the biggest players, and the Democrats' "anything goes" mentality allowed their worst excesses to go unregulated, unsupervised, and undisciplined.

POLITICS

That Sinking Feeling

JOHN MCCAIN spent the latter half of September sinking in the polls. Financial turmoil has added to the public's already strong desire for change in the White House. And a string of unimpressive media interviews has reduced the appeal of McCain's running mate, Alaska governor Sarah Palin.

All is not lost. The public still has respect for McCain, doubts about Obama, and an aversion to liberalism. But McCain will not win unless he persuades middle-income voters that he will advance their economic interests. He has not succeeded in doing that, largely because he has hardly tried. In his first debate with Obama, the economic topic he most emphasized was earmarks and overspending. But he never explained how ending earmarks or restraining spending would help voters.

Neither McCain nor Obama has been very specific about what he would do to end the financial panic. That symmetry works in Obama's favor, since economic distress is his party's meal ticket. McCain has a tougher task: He must demonstrate that he can lead us out of this crisis, and that he will make the economy work again for middle-class Americans. McCain can credibly run as the candidate who will not only cut the cost of government, but cut voters' costs too, by lowering their energy, health, and tax bills. But time is running short.

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■ **WALL STREET CRISIS** ■

The Road to Financial Hell

We're only at the beginning

RAMESH PONNURU

UNTIL very recently, an economist who wrote an op-ed about Fannie Mae and Freddie Mac would get only yawns for his trouble—typically from editors saying, No thanks. But in mid-September, economist Kevin Hassett (an NR contributor) got 1,500 e-mails, most of them nasty, in response to his Bloomberg News column on the subject.

Hassett wrote that these "government-sponsored enterprises," to use the term of art, are at the heart of the financial crisis. "The economic history books will describe this episode in simple and understandable terms: Fannie Mae and Freddie Mac exploded, and many bystanders were injured in the blast, some fatally." He added that these enterprises were able to explode only because Democrats had, in 2005, blocked reformers such as John McCain from defusing them.

It's safe to say that nobody is yawning anymore. But the origins of the financial crisis remain mysterious, especially to the general public. Everyone knows that the housing market is at the root of the problem. But 90 percent of mortgages are still being paid on time, including 70 percent of all subprime mortgages. How did this small default rate lead to catastrophe? The Democratic answer is that deregulation turned the financial industry into a house of cards. But the real answer lies elsewhere, in trends and policies that almost nobody would have regarded as major threats to our economic future in, say, 2004.

The Federal Reserve had by then responded to the recession at the start of the decade by loosening monetary policy and keeping it loose. Long-term interest rates dropped, stimulating homebuying and refinancing. Very few people expressed any worry: Loose money, at that time, was not increasing the general price level, which would have generated complaints. It was merely inflating housing markets, to the delight of homeowners. It was also encouraging both homeowners and the financial industry to become overleveraged.

The historical tables suggested that homebuying was a low-risk investment. But once most people started to think that way, housing was bound to become overvalued. Land-use regulation made the inevitable boom-to-bust cycle worse in some parts of the country. Randal O'Toole, who studies these issues at the libertarian Cato Institute, points out that the market usually moderates housing booms: When prices rise, more houses are built. Areas where homebuilding was severely restricted had no such brake on prices. O'Toole writes, "The housing bubble was not universal. It almost exclusively struck states and regions that were heavily regulating land and housing. In fast-growing places with no such regulation, such as Dallas, Houston, and Raleigh, housing prices did not bubble and they are not declining today."

Two more things were necessary to start the financial fire. The first was the development of new financial technologies. The ability to pool mortgages, slice the pools into tranches, and sell and re-sell them to multiple buyers increased efficiency and thus made it cheaper to buy homes. But these securitization techniques proliferated faster than risk-management techniques could keep up with them.

The second was the push by the government to promote homeownership among people with high credit risk. The Community Reinvestment Act, liberal legislation that forced banks to meet lending quotas, was one of the government's methods. But it took Fannie and Freddie to turn what would have been a serious financial problem into a disaster. Elsewhere in this issue, Stan Liebowitz provides the grim details of how they led a systematic assault on underwriting standards. Fannie and Freddie enjoyed an "implicit subsidy": Investors and lenders expected the government to bail them out if necessary, as indeed it did. Privatizing profits while socializing risks is a formula for imprudent behavior. That's not a bug in the firms' design. It's a feature. They were set up as government-backed companies precisely to do what no private firm in its right mind would do. In this respect they certainly succeeded.

Many Wall Street firms have fingered

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"mark to market" accounting rules, also known as "fair-value accounting," as an additional culprit. Under these rules, tightened late last year, many financial institutions must report the value of their assets based on their current market prices. Most of the time, that makes sense. The critics of the rules say, however, that they do not work well for assets in illiquid markets during big booms or busts.

In recent months, they say, the rules have created a fire-sale atmosphere. Banks with assets that have been marked down—such as mortgage-based securities—have suddenly found themselves below their capital requirements. They have had to unload those securities, in the process driving their prices farther down and thus endangering the balance sheets of other institutions with problematic assets. This chain reaction has been good for buyers and short sellers, but bad for the system as a whole.

Brian Wesbury and Robert Stein of First Trust Advisors write, "Imagine if you had a $200,000 mortgage on a $300,000 house that you planned on living in for 20 years. But a neighbor, because of very special circumstances, had to sell his house for $150,000. Then, imagine if your banker said you had to mark to this 'new market' and give the bank $80,000 in cash immediately (so that you would have 20 percent down), or lose your home. Would this reflect reality? Not at all. Would this create chaos? Absolutely. And it is happening all over Wall Street."

There is a heated debate on this subject, with proponents of the strict rules arguing that the opponents want to cook the books to create "fake capital." The opponents retort that it is the current rules that cook the books, and do so at the moment in the firms' disfavor. One of the reasons that investment banks such as Goldman Sachs have in recent days become commercial banks is to avoid the accounting rules that apply to I-banks. (Most of the opponents do not want to scrap the rules altogether; they want to suspend them for those assets where they seem to be causing trouble, pending a rethink.)

It took the combination of all of these factors to bring about the present debacle. Most of them, you'll note, involved misguided government policies. While Senator Obama and many others blame deregulation and government inattention for the financial crisis, government intervention actually played a role in every step of this process. The deregulation of banks, by allowing them to diversify, has probably made it easier for them to ride out the crisis. In some cases, additional regulation would have made sense: Stopping mortgage originators from making "no-doc loans," for example, would merely have been an application of the traditional libertarian stricture against fraud. But for the most part this fiasco has resulted not from "market failure" but from a failure to have markets.

Libertarians have also always warned that intervention tends to beget more intervention, and so it is likely to be in this case. Whether or not some version of Treasury secretary Henry Paulson's financial-rescue legislation is enacted, many big players in the financial industry are going to get government assistance. In the public mind, that assistance will count as a "bailout" even if both management and stockholders have to eat big losses.

The Democratic/media narrative about the folly of deregulation may not have lasting consequences. When Enron and WorldCom went under during the accounting scandals earlier this decade, it led to a major piece of regulation, Sarbanes-Oxley, but did not pull our political system to the left in general. Bailouts, on the other hand, may have bigger consequences.

For one thing, people will reasonably argue that if taxpayers are at risk of having to bail out firms they should insist that firms behave in less risky ways. If companies can be "too big to fail" or "too entangled to fail," perhaps we should keep them from getting too big or entangled in the first place.

For another, it will become harder to resist bailouts of other sectors of the economy, even if failures there pose no systemic risk. The auto industry already has its hand out.

Finally, it will be harder to resist welfarist legislation in general. Liberals will be able to campaign for anything—larger student loans, national health care, job-training programs—by saying that if we give billions to Wall Street, we should be willing to help the luckless too.

We are going to be paying for the mistakes that led us to this pass for a long, long time. **NR**

■ **WALL STREET CRISIS II**

Worse than a Bailout—a Blunder

How not to conduct a government intervention

ALAN REYNOLDS

There are winners and losers every time the government sticks its clumsy fist into financial markets. But we can't discover who has been helped and who has been hurt by using the word "bailout" indiscriminately.

For shareholders of Bear Stearns, Fannie Mae/Freddie Mac, and AIG, surprise raids by Treasury secretary Hank Paulson and Fed chairman Ben Bernanke were a wipeout, not a bailout. Driving those share prices down to a few dollars (AIG) or a few cents (most others) did not restore confidence among investors who still held other financial stocks. On the contrary, it made them stampede for the exits.

Financial-stock prices fell dramatically as soon as it became known than the loan to AIG, carrying an 11.3 percent interest rate, would be tied to government expropriation of 80 percent of equity. Collapsing share prices for financial firms that seemed vulnerable to that sort of government "help" meant that ratios of debt to equity became much worse. The firms had no additional debt, but much less equity. Such Treasury-led debasement of equity value, in turn, led regulators to boost affected firms' capital requirements; but the exodus of investors from financial stocks often provoked downgraded credit ratings, making it impossible to sell shares or bonds to bolster capital.

In short, these previous "bailouts" exacerbated, or even caused, the problems

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Mr. Reynolds, National Review's economics editor from 1972 to 1976 and the author of Income and Wealth, is now a senior fellow at the Cato Institute.

they were supposed to solve.

By late September, the problem of overleveraged investment banks had been resolved by destroying Wall Street. The five big investment banks previously known as "Wall Street" were either absorbed or transformed into commercial banks, with the surviving four raising $9 billion to $11 billion each in additional capital. Allowing Lehman to go bankrupt rather than facilitating its sale had the nasty side effect of provoking a mini-run on money-market funds, one of which had a paper loss of 3 cents on the dollar. But that anxiety was addressed with temporary insurance. So the biggest holes in the financial dike were already plugged by Sept. 29, when the House turned down the Emergency Economic Stabilization Act (EESA), a politically perverted version of Paulson's plan to buy up to $700 billion of mortgage-backed securities.

Some of the most destructive legislation in history has been enacted in hasty response to economic problems, often with tremendous popular support. The infamous Smoot-Hawley tariff in 1930 comes to mind, as does Nixon's wage-price freeze in 1971.

The Paulson proposal is not in that league, and might even prove helpful if purged of some dangerous congressional add-ons. But when so many interested parties are invoking the Great Depression to persuade Congress to move quickly, skepticism and prudence are called for. Stories about a proposed $700 billion taxpayer "bailout" for the Wall Street fat cats who got us into this mess made folks angry—so angry that EESA failed to pass the House, with half the progressive Democrats and three-fourths of conservative Republicans voting against it.

In truth, the story of a $700 billion bailout was a fraud. EESA was never a $700 billion expenditure, nor anything remotely close to it. The only way EESA could cost taxpayers $700 billion would be if the value of all the real estate behind mortgage-backed securities were to fall to zero. As for the "bailout" label, it is too late to bail out the investment banks we once knew as "Wall Street"—they no longer exist. It is also too late to bail out the executives of these failed institutions, including the bosses at insurance giant AIG, because those executives have all been fired and their accumulated stock and options have turned to trash. Obama's ad denouncing golden parachutes is a sideshow.

The core idea of the Paulson plan was that the Treasury could offer to buy mortgage-backed securities at a deep discount. There is a plausible statistical argument that the securities the government bought would likely be sold at a tidy profit and earn income in the meantime. That issue is probably moot, however, because the "taxpayer protections" Congress added to the bill would make it necessary for bank executives to impoverish both their stockholders and themselves before dealing with the Treasury. Only companies in dire straits could be expected to participate, thus thwarting the intent of the program—which is to make it easier for thousands of fundamentally sound banks to lend.

The best thing that can be said for an unadulterated Paulson buyout plan is that it is less frightening than Paulson's previous ad hoc wipeouts. In fact, the buyout is something we've done before. When the government nationalized Fannie Mae and Freddie Mac, they were doing exactly the same thing—using low-interest Treasury debt to buy up hundreds of billions of dollars' worth of mortgage-backed debt. Yet many who had no objection to the buyout of Fannie and Freddie became surprisingly upset about the latest Paulson version.

Some of the biggest problems with EESA came from congressional additions. The horse-trading became downright silly at times, with Democrats wanting to tack on $60 billion for pork and Republicans wanting to cut the capital-gains tax.

Although $300 billion had already been approved to help homeowners, Democrats wanted more loot for that purpose, too. They also wanted to invite bankruptcy judges to shrink the size of troubled mortgages, which would obviously reduce the value of the securities the plan calls for taxpayers to purchase.

What survived in the bill was no more sensible. For their part, Republicans insisted on the alternative of offering fee-based insurance for such securities, as if that posed little risk; they must have forgotten the cost of insuring savings-and-loan depositors in the 1980s. Such insurance could not be actuarially sound unless fees varied with risk. Otherwise, the mandatory fee would become a tax on the safest securities to subsidize the riskiest. Unfortunately, there is not enough history or market data to determine what the appropriate risk-adjusted fee should be for all these illiquid and diverse bonds. If the fees end up too high, the program must weaken the securities it was supposed to help; too low and taxpayers would be at grave risk of making up the losses.

Each side had bad ideas; when they agreed, it was worse. Both parties agreed that taxpayers should get something in return from companies that become profitable and see their share prices go up. Taxpayers would get something, of course—namely, 35 percent of any improvement in corporate profits, 35 percent of any executive pay gains, and 15 percent of capital gains.

EESA demanded much more—"a warrant giving the right to the Secretary [of the Treasury] to receive non-voting common stock or preferred stock in such financial institution," with the exercise price "set by the Secretary, in the interest of the taxpayers." Some legislators pointed approvingly to the precedent of warrants in the AIG deal, without realizing that this is precisely what scared the pants off the stock market and thereby destroyed hundreds of billions of dollars' worth of private-equity capital throughout the financial sector.

Conservative legislators who expressed fear about letting the Treasury buy mortgage-backed bonds were strangely enthusiastic about inviting the Treasury to acquire equity in companies. Critics of derivatives became enthusiasts for warrants, which are themselves derivatives, similar to long-term call options. They would give the Treasury secretary virtually unlimited power to confiscate the wealth of stockholders of any company foolhardy enough to play this game.

Ironically, the warrants would make it more expensive for the Treasury to buy mortgage-backed securities, and therefore make it less likely for those securities to be resold at a profit to taxpayers. As Congressional Budget Office chairman Peter Orszag explained: "Since the warrants or debt instruments would have value, Treasury would generally face higher prices because sellers would seek compensation for both the value of the troubled asset and the value of the warrant or debt instrument."

Public ownership of mortgage-backed bonds is merely an investment—a good or bad investment depending on prices when the bonds are bought and sold. Public ownership of equity is socialism. Once such a precedent is set (as it already has been, to some extent), it becomes difficult to have publicly traded banks in the United States, since shares in such companies would have to bear a formidable premium to compensate for the risk that some future Congress would once again rip off common-stock investors by taking preferred shares. The Emergency Economic Stabilization Act as presented on Sept. 29 was seriously flawed—not because public investment in mortgage-backed bonds is necessarily awful, but because expanding public investment in bank equity would be a dangerous precedent.

Alternatives to the bill are not promising. Increasing the size of deposits insured by the FDIC would be a useful Band-Aid, but it doesn't get to the root of problems with the frozen market for mortgage-backed securities, and the FDIC does not have unlimited funds.

Alarmist rhetoric and dubious policy advice often come from people who are not disinterested. Warren Buffett is wise and likable, but Berkshire Hathaway has huge investments in insurance and banking. Famed bond trader Bill Gross, managing director of PIMCO, has strong opinions but may also have weak assets in some of his bond funds. In a *Wall Street Journal* op-ed, hedge-fund manager John Paulson advocated having the Treasury buy equity rather than bonds, a move that would deeply devalue bank stocks and keep the market for mortgage-backed bonds illiquid and depressed. John Paulson has made billions shorting such assets.

The better approach is to enact the original Hank Paulson plan, with ample oversight, but strip out Congress's too-clever additions. That would probably be more prudent than just standing aside, and surely better than reverting to the ad hoc wipe-out policies that helped get us into this fix. Those claiming the alternative to EESA is another Great Depression or a ten-year stagnation like the one suffered by Japan are simply revealing their excitability and ignorance. People who abuse such historical analogies need to study economic history with much greater care. **NR**

■ **WALL STREET CRISIS III**

A Tool, Not a Fetish

Against the economics of *Mad Max*

ANDREW STUTTAFORD

In the wake of Sept. 29's dramatic House vote, the prospects, nature, and chances for success of any revived Paulson plan were, to say the least, uncertain. What remained certain was that some sort of rescue, bailout, pick the euphemism or pejorative of your choice, was still needed, and needed quickly.

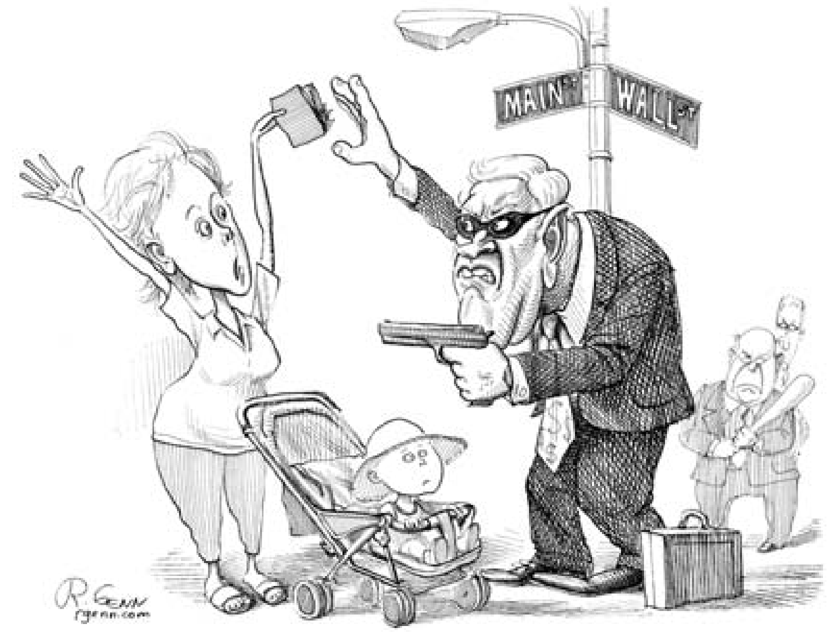
That this could ever have been a matter of serious debate is remarkable. Even more remarkable is the fact that a good number of those seemingly opposed to the very idea of a plan have come from the GOP. Washington's Republicans are supposedly the flag bearers, however tatty, torn, and stained their flag, of what little economic literacy there is within the nation's capital. Witnessing some of their recent pronouncements, not to speak of their votes, has been a depressing exercise.

As a starting point, we need to discard the distinction so often and so misleadingly drawn between Main Street (good) and Wall Street (bad), and its close cousin, the Pollyanna chatter about the "real" economy (healthy) and the financial world (sick). In fact, Wall Street and Main Street are just different points along the same road. Those who operate within the financial markets do so in the pursuit of their own economic interests, and there are occasional, inevitable, and sometimes spectacular speculative excesses; however, those operations generally facilitate the (reasonably) efficient allocation of capital to the rest of America. It shouldn't be necessary to remind Republican congressmen that capital is the lifeblood of any economy. It's worth adding that if anyone really thinks the vital principle of moral hazard—the notion that rescuing failing financiers will encourage others to take excessive risks—has been junked, or that the Paulson plan would have meant that Wall Street had "gotten away" with this mess, I can probably find some Lehman stock to sell him.

And that's why referring to that plan, an initiative designed to defend this system, as (to quote various House and Senate Republicans) "financial socialism," "un-American," and an example of the "Leviathan state" at work is absurd. A belief in the effectiveness of free markets is one thing. Market fundamentalism is another.

Free markets are, to steal Winston Churchill's famous comment about democracy, the worst way of running an econ-

Mr. Stuttaford is a writer in New York City.



ROMAN GENN

omy "except for all those other forms that have been tried from time to time." Free markets work better than the alternatives because no one person, organization, or government has the smarts to allocate resources more efficiently than can the collective wisdom of the crowd. But the free market should be a tool, not a fetish, and as with all tools, there are instructions for its use. To think that it can operate in Galt's Gulch isolation is to ignore history and psychology, and to confuse the economics of Hayek with those of *Mad Max*.

Free markets need a financial, legal, and regulatory structure to provide the element of trust—without which they cannot work very well, as we saw in Boris Yeltsin's chaotic Russia. And that basic structure, experience shows us, has to come from the state. The only real question is how extensive it should be. As the failures of socialism demonstrate, too much state intervention is counterproductive. But too little can also be disastrous, especially when it comes to preserving the trust that (for example) enables banks to borrow short and lend long, thereby ensuring the free flow of funds on which the economy relies.

A breakdown in trust has been all too evident in recent months, both to those of us in the financial markets (I work in international equities, but should stress that I am writing in a purely personal capacity) and, increasingly, to those working outside them. In the more insular political arena, there seems to have been rather less understanding. When, on Sept. 23, Sen. Richard Shelby (R., Ala.) suggested that the U.S. should make sure it has "exhausted all reasonable alternatives" before proceeding with the Paulson plan, it was impossible to avoid wondering what, at that late stage, he had in mind. And then there was the first House vote.

Whether it's the slowdown in interbank lending, the drastic contraction in the commercial-paper market, or even the fact that in late September the U.S. Mint ran out of its one-ounce "American Buffalo" gold coins owing to a surge in investor demand, the signs of collapsing trust and mounting panic in the credit markets (gyrations in the stock market matter much less) are unmistakable—and profoundly disturbing.

And when panic takes over, it is indiscriminate. Sound institutions can fail along with those that deserve to. It's not only exuberance that's irrational; free markets may rely on the collective wisdom of crowds, but as Charles Mackay (the 19th-century author of *Extraordinary Popular Delusions and the Madness of Crowds*) reminds us, crowds can go crazy. That's why on some occasions the Fed has to take away the punchbowl, and on others come to the rescue.

Unfortunately, the problems this time are so great that the Fed's interventions have not so far done the trick. At this point, government, the only institution with *possibly* enough resources (financial and other-

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wise) to halt this particular panic, has to step in with something very drastic indeed. It's not pretty, or particularly ideologically comfortable for those of us on the right, but, like the free-market system, it's pragmatic and, as such, thoroughly American. The Japanese delayed doing what they needed to do for years; the consequences are too well-known to need reciting here.

None of this is to claim that the original Paulson plan was perfect. It was very far from that (I'd have preferred a scheme with more direct equity investment in the troubled institutions). Equally, it must be acknowledged that the congressional Republicans' criticisms improved the package's terms prior to the first vote, if insufficiently to convince enough of them to vote yes. The problem is that, in the course of a panic on this scale, time *is* of the essence (this is not some bogus emergency on the usual Washington model). There is limited room for fine-tuning, with the markets waiting for a move.

As Rep. Henry Steagall (yes, *that* Steagall, and yes, he was a Democrat) wrote in 1932 about a fix proposed for an economic crisis:

> Of course, it involves a departure from established policies and ideals, but we cannot stand by when a house is on fire to engage in lengthy debates over the methods to be employed in extinguishing the fire. In such a situation we instinctively seize upon and utilize whatever method is most available and offers assurance of speediest success.

No bailout, however deftly structured, offers any "assurance" of success. The situation is too treacherous for that. A bailout is a gamble, but not a stupid or extravagant one (banking crises never come cheap), and the stakes are too high to avoid it. To do little or nothing, or to rely on the free market alone, would be to display reckless optimism of the type that got us into this trouble in the first place.

The free market simply cannot do its job in a climate of rising and highly infectious financial panic, hysteria, and risk aversion. A bailout offers a chance of restoring the confidence needed for its normal operation, and with this the semblance of a normal economic cycle.

The alternative could well be systemic collapse, and it is that, not Hank Paulson, that will pave the way for Leviathan. **NR**

■ **2008**

Testing the Bradley Effect

Are opinion polls making accurate predictions about Barack Obama?

JAY COST

IN 1982, California gubernatorial candidate Tom Bradley went into Election Day leading in the polls. He lost in a squeaker. In 1989, New York City mayoral candidate David Dinkins had as much as an 18-point lead in the polls over his Republican opponent, Rudy Giuliani. On Election Day, he eked out a narrow victory. That same year, Virginia gubernatorial candidate Douglas Wilder enjoyed as much as a 15-point lead, only to win by a few thousand votes out of nearly 2 million cast.

All three candidates were black. These peculiar results have induced political observers to ask whether there is a systematic "Bradley Effect"—i.e., whether black candidates can expect to poll better among white voters than they perform at the ballot box. As Harvard University post-doctoral fellow Daniel Hopkins recently put it, "During a survey, respondents may be less likely to indicate voting intentions that are socially stigmatized, such as their unwillingness to support a black candidate."

Hopkins's analysis indicates that while there was a Bradley Effect through the 1980s, it had dissipated by the mid-'90s. Hopkins speculates that this was due to a decline in the "salience of racialized issues" like crime and welfare.

But that is not the end of the story. University of Washington professor Anthony Greenwald found evidence suggesting that the Bradley Effect was in play during the 2008 Democratic-primary battle between Hillary Clinton and Barack Obama. He noted that the variation in polling margins depended on the number of blacks living in a state: Polls in states with small black populations overestimated his performance, as the Bradley Effect predicts; but polls in states with large black populations actually underestimated Obama's final performance, meaning that more people voted for Obama than the polls predicted.

So Greenwald found both a Bradley Effect and a Reverse Bradley Effect. His results are preliminary, but they highlight the new salience of this topic. Might the Bradley Effect be affecting Barack Obama, and might it manifest itself on Election Day 2008? Greenwald's results suggest this is possible.

I designed a statistical model that builds upon Greenwald's work. The model attempts to account for the difference between Obama's predicted vote margin and his actual vote margin.

Following Hopkins, the expectation is that if the Bradley Effect exists, it has to do with white respondents' understanding of what is socially desirable. This could be related to a number of factors, and I included some in my analysis. First was the one Greenwald measured, the percentage of each state's population that is black.

Socioeconomic status is another possibility; white respondents of a higher socioeconomic status might be more attuned to social cues—and therefore more likely to feel pressured to say they're voting for the black candidate. I measured socioeconomic status in each state as the interaction of two variables: the percentage of whites with college degrees and the median white income in the state (both as of 2000).

The existence of a Bradley Effect might also be related to age. Older respondents might not be as attuned to social cues as younger respondents, and might be more likely to give an authentic answer even if it's socially unacceptable. To measure this, I included as a variable the median age among whites in each state.

I added a variable indicating whether each state's primary contest took place before, during, or after Super Tuesday. I also measured the effect of other factors: the geographical region of the contest (West, Midwest, Northeast, or South, as defined by the Census Bureau), the pollster who conducted the poll, and Obama's final vote share (because polls often overestimate the winner's share of the vote).

Mr. Cost writes the HorseRaceBlog at RealClearPolitics.com.

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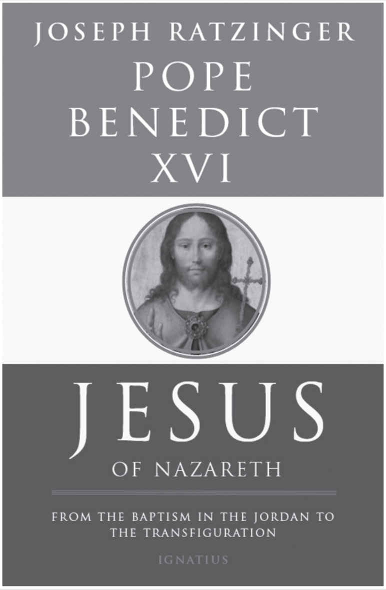
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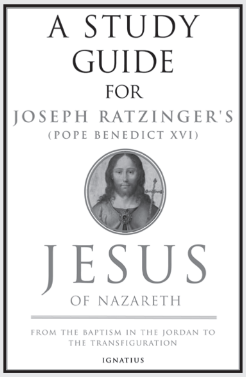
A STUDY GUIDE
FOR
JOSEPH RATZINGER'S
(POPE BENEDICT XVI)
JESUS
OF NAZARETH
FROM THE BAPTISM IN THE JORDAN TO THE TRANSFIGURATION
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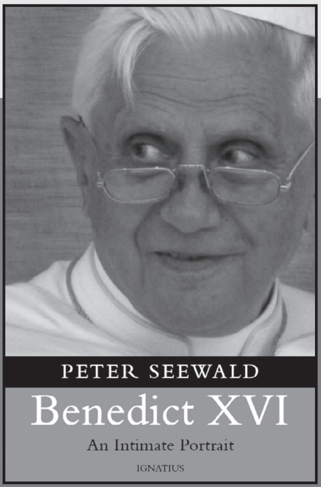
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My results confirmed Greenwald's. As the black proportion of a state's population increases, the polls become more likely to underestimate Obama's vote share. This is consistent with Greenwald's Reverse Bradley Effect.

I also find a tight relationship between socioeconomic status and polling error. As socioeconomic status among whites increases, the polls are more likely to overestimate Obama's share of the vote. This is consistent with the Bradley Effect.

It is unclear whether age has an effect; my analysis produces only inconclusive evidence. The evidence does suggest that the Bradley Effect might have been enhanced after Super Tuesday, however.

These results suggest that the Bradley Effect (and the Reverse Bradley Effect) might have been in play during the primaries. Unfortunately, moving beyond this rather slim statement pushes us into a serious problem: I analyzed only this race, instead of determining how black candidates fared against whites in many races.

Therefore, while my results are consistent with the Bradley Effect, they could also result from any number of non-racial differences between this race's candidates. They are consistent with an "Experience Effect"; it might be that white voters consistently shifted their opinions at the end of the campaign because, on reflection, they were more comfortable with Hillary Clinton and her experience than Barack Obama and his newness.

This could easily be related to age and socioeconomic status, given that Obama was more competitive with voters of a younger age and a higher socioeconomic status. Perhaps Clinton was able to peel off some of these voters at the last moment. This would be consistent with the typical finding in the exit polls that a significant number of respondents made up their minds in the last three days before the primary.

In theory, good polling data might enable us to decide between these two hypotheses (i.e., a Bradley Effect or an Experience Effect). But for now, I must conclude that we cannot know.

Both the Bradley Effect and the Experience Effect, however, rest on the fact that people don't always vote the way they tell pollsters they will. We will not know the country's true opinion until Election Day. **NR**

■ ENERGY

Gangster Politics

A handful of GOP senators came close to blocking sound energy policy

STEPHEN SPRUIELL

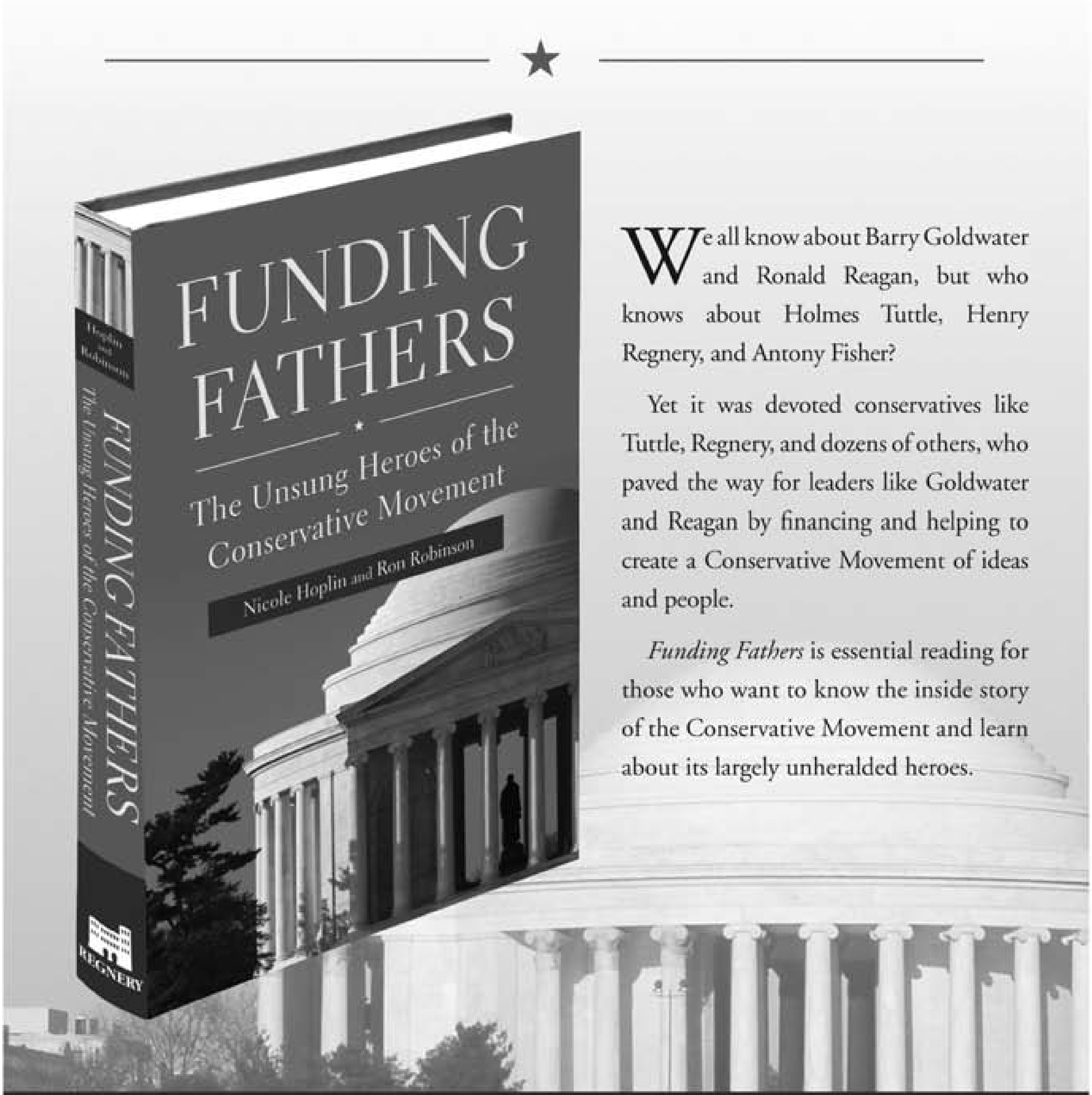
IN a year otherwise favoring Democrats, high gas prices served up a potential windfall for the GOP. House Republicans rallied around a shared opposition to the congressional ban on offshore drilling, and even John McCain got in on the act. By mid-September, two-thirds of the public supported lifting the ban. The Democrats, lacking the votes to renew it, let it lapse on Oct. 1.

The victory, such as it was, almost didn't happen. In early August, when pressure on Democrats was at its highest point, five Republicans and five Democrats formed a "Gang of 10" in the Senate and put forward energy legislation that would have kept the ban in place for all but a small portion of the Outer Continental Shelf. In exchange for this tiny bit of drilling, the gang's proposal called for a big chunk of subsidies for "green" energy, giving Democrats a soft place to land on the drilling issue. The gang ended up falling apart, but its flawed compromise will undoubtedly serve as a model when Democrats attempt to reinstate the ban next year.

The gang's compromise legislation started taking shape in June—before public anger over high gas prices really peaked. An aide to a senator who opposed the gang's efforts tells NATIONAL REVIEW that the gang started as a working group being run by Georgia Republican Saxby Chambliss, which Senate GOP leader Mitch McConnell allowed "under the guise of being able to go out and negotiate with Democrats." According to the aide, McConnell told Chambliss to "negotiate, but don't come up with an agreement that negates our principles."

Chambliss's Democratic counterpart in the negotiations was Senate Budget Committee chairman Kent Conrad of

Meet the Unsung Heroes Behind the Conservative Movement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North Dakota. At the time, Chambliss had just finished working closely with Conrad on the passage of a new farm bill. Chambliss, the ranking Republican on the Agriculture Committee, needed Conrad's help to square that bill's $300 billion price tag.

Chambliss and Conrad are both farm-state senators and supporters of the handout-dependent biofuels industry. The farm bill they put together authorized billions in new subsidies for biofuels, including loan guarantees for the construction of biofuel refineries, $400 million in direct payments to biofuel producers, and over $1 billion to subsidize the conversion of domestically produced sugar into ethanol. (Brazil has plenty of cheap sugar-based ethanol, but the farm bill renewed the 54-cent-per-gallon tariff that keeps it locked out.)

Biofuel supporters in Congress can feed from both the agriculture and the energy troughs, and this summer presented an excellent opportunity for Chambliss and Conrad to move seamlessly from one to the next. Most of the gangsters they recruited—including Republicans Johnny Isakson of Georgia, John Thune of South Dakota, and Bob Corker of Tennessee—also come from states with significant biofuel interests. (The fifth Republican, Lindsey Graham, saw the bill as an opportunity to promote nuclear power in his home state of South Carolina.)

The gang's proposal called for a sevenfold increase in federal funding for biofuels research—from around $350 million to nearly $3 billion per year. Most of this money would fund research into cellulosic ethanol, which is produced from non-edible plant matter like wood chips and switchgrass. The concept is similar to the "Mr. Fusion" device from *Back to the Future*: Take a bunch of garbage that nobody wants and turn it into energy. And, like *Back to the Future*, cellulosic ethanol is pure fantasy.

Economic barriers to the cost-efficient production of cellulosic ethanol are so numerous that time travel seems more probable. Breaking down the indigestible mass normally requires the use of expensive enzymes, and even methods that avoid this process run into problems of scale involving the transport of enormous quantities of feedstock. Suffice it to say that cellulosic ethanol cannot currently compete with its also-inefficient corn-based cousin, much less gasoline, on a cost-per-gallon basis.

Unfortunately, pro-biofuel politicians have taken an "If you build it, they will come" approach to cellulosic ethanol. A 2007 law mandates its use in gasoline beginning in 2010, creating a market where there was none, and the Department of Energy has started pumping money into the construction of refineries. Last year, the DOE awarded $76 million to Range Fuels for the construction of the nation's first commercial-scale cellulosic-ethanol plant in Chambliss and Isakson's home state of Georgia.

The idea behind the gang's massive increase in funding for biofuels research is that the industry needs to solve the cost-efficiency problem before the mandates kick in and the refineries come online. This explains not just Chambliss's and Isakson's support, but also Bob Corker's. Last year, Corker put out a press release bragging about his role in securing $125 million for a bio-energy research center at Oak Ridge National Laboratories in Tennessee. Oak Ridge would be perfectly placed to compete for billions of additional research dollars.

The gang's proposal also included sweeteners for proponents of plain old corn-based ethanol, such as John Thune. It had loan guarantees for the construction of new pipelines capable of transporting E85, a fuel blend composed of 85 percent ethanol. (Ethanol cannot travel through ordinary pipes, because it corrodes them and absorbs water and other impurities.) It would have expanded tax credits for E85-powered automobiles and gas stations that sell E85. It proposed an extraordinary requirement that 100 percent of automobiles manufactured for use in the United States be capable of running on some form of alternative (non-gasoline) fuel by 2020.

Ethanol obviously links four of the gang's five Republicans, but it wasn't immediately clear to me why the fifth, Lindsey Graham, decided to join. On NATIONAL REVIEW ONLINE I speculated that maybe Graham had a mania for joining bipartisan gangs (he was in the "Gang of 14" on judicial nominations in 2005). Then an aide to Graham informed me that the gang's proposal included federal funding for a nuclear-fuel reprocessing plant in Barnwell, S.C. Jimmy Carter cut off federal funding for the plant's construction in 1978, dooming the project, and South Carolina politicians have been trying to restore it ever since.

There are reasonable arguments that the federal government should invest in a nuclear-fuel reprocessing plant, although I will not make them here. And some people genuinely believe that biofuels are the key to our energy future, although I strongly disagree. The gang also called for billions in direct subsidies and tax credits for hybrid cars, plus more spending on wind, solar, and other renewable-energy projects of debatable value.

But even if a conservative were favorably disposed toward these policies, he should consider the trade-offs. The Republicans in the gang agreed to $84 billion in new spending and $30 billion in tax hikes on the U.S. oil-and-gas industry in exchange for a small amount of drilling. In the process, they very nearly derailed their party's ultimately successful effort to get rid of the drilling ban with no spending and no tax hikes.

The gang's meager drilling proposal would have allowed four states—Georgia, Virginia, and the Carolinas—the right to grant new offshore leases beyond a 50-mile buffer zone. It also would have reduced the buffer zone off the west coast of Florida from 125 to 50 miles, but Florida's east coast and the oil-rich Pacific would have remained off-limits. On the whole, the gang's plan would have kept the drilling ban in place for roughly 80 percent of the Outer Continental Shelf.

Keep in mind that the gang started work on its proposal in June, and gas prices did not peak until mid-July. On July 14, President Bush lifted an executive ban on offshore drilling, increasing pressure on Congress to act. House and Senate Republicans hammered Democrats on their unwillingness to lift the ban, and Republicans in close races around the country saw their numbers go up as they delivered a simple message: Drill here, drill now.

As polls reflected substantial and growing support for lifting the ban, victory on the drilling issue started to come into view. But in early August, the gang unveiled its compromise bill with the misleading drilling language, giving Democrats a way to "vote for drilling"

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without angering environmentalists. Better still from the Democrats' perspective, it allowed them to accuse Republicans who opposed the compromise of trying to protect Big Oil.

Speaker Nancy Pelosi was quick to adopt the gang's approach in the House, but in an ironic twist of fate, the bill she introduced sowed the seeds of the gang's demise. Pelosi's bill was similar to the gang's in many respects, but it actually allowed more drilling (although still much less than under no ban at all). Even so, her bill was endorsed by the *New York Times* editorial board and the Sierra Club, putting the gang's Republicans to the left of those venerable liberal institutions. The gang—which by this time had grown to 20 members as moderates from both parties glommed on—fell apart when Republicans tried to change the proposal to include at least as much drilling as Pelosi's bill.

Pelosi was able to pass her bill on a largely party-line vote, but—with the gang in tatters and the president threatening to veto any bill with a tax increase—Senate majority leader Harry Reid decided not to bring new energy legislation to the floor. Without a "comprehensive" solution to fall back on, Democrats faced a stark choice: renew the offshore-drilling ban or let it lapse. The Democrats decided that they did not have any political capital to spare. The ban expired, and Republicans claimed a victory.

But this victory could be short-lived. One of the most unfortunate aspects of the Gang of 10 is that it created a template to which Democrats can return next year. Leading Democrats have already vowed that they will try to reinstate parts of the ban, such as the 50-mile buffer zones that would lock away 95 percent of the approximately 10 billion barrels of oil off the Pacific coast.

Pelosi has already passed a sham bill in the House that Barack Obama, should he win, would have no problem signing. Assuming the Democrats do not gain a filibuster-proof majority, a unified minority in the Senate is the GOP's best hope for making sure that the Outer Continental Shelf stays open long enough for producers to bring new supplies online. For the sake of America's energy future, let's hope this particular gang does not get back together. **NR**

■ **THE STATES**

Battle for High Ground

Of the GOP's prospects in Colorado

MARK HEMINGWAY

LIKE much of the Mountain West, Colorado has been tilting Democratic in recent years. Colorado's Democratic governor, Bill Ritter, crows that starting in Montana you can drive from the Canadian border to Mexico without passing through a single state governed by a Republican.

During the past four years Democrats have seized control of the Colorado legislature and captured Republican Ben Nighthorse Campbell's Senate seat, and now occupy a majority of the state's seven congressional seats. Though the state has voted Republican in every presidential election since 1964 (save 1992's three-way race, when a plurality voted for Clinton), current polls have the presidential race too close to call.

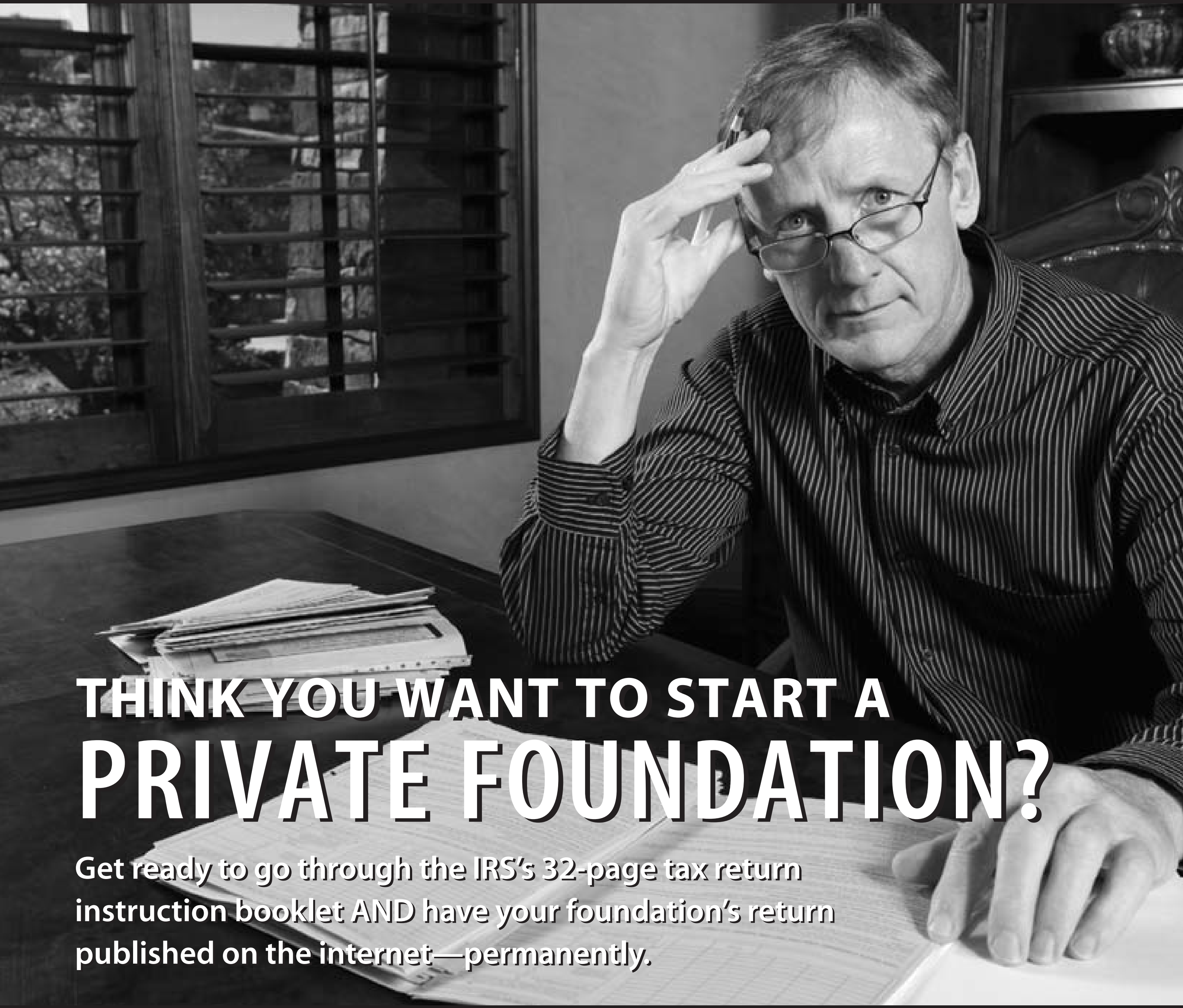
Democrats have made no secret of their desire to paint Colorado and the rest of the Mountain West blue. After years of trying and failing to establish a foothold in the South, Democratic strategists are calling that effort a lost cause. "Political attitudes and demographic changes in other parts of the country are far more favorable to Democratic messages and messengers. . . . There are opportunities to expand Democratic margins in the Mountain red states while consolidating control over the reliably blue northeastern and Pacific coast states," writes political scientist Thomas Schaller, whose book, *Whistling Past Dixie: How Democrats Can Win without the South*, is very much in vogue in Democratic circles. But there is debate about whether these new Democratic inroads are due to the fact that the scandal-plagued GOP is out of favor nationally—and temporarily—or, alternatively, this recent momentum is the beginning of a long-term electoral realignment.

Ground Zero in the battle for the political soul of the Mountain West is this year's race for the seat of Colorado's retiring senator, Republican Wayne Allard. Republican Bob Schaffer, a former congressman, is pitted against Democrat Mark Udall, a five-term veteran of the House currently representing the Second Congressional District. What makes this race so compelling is the high-definition contrast between the two. Schaffer is indisputably conservative—during his first term, *National Journal* ranked him the 19th-most-conservative House member. He also has a reputation for being a principled politician. "He's got a tremendous amount of integrity. He had committed to term limits, to three terms in the House," says Mike Rosen, a popular conservative talk-radio host in Denver. "Then the Supreme Court undercut the term-limits movement, but Bob Schaffer stood by his commitment and stepped down after his third term in a safe seat." Schaffer captured 80 percent of the vote in his final congressional election.

Ground Zero in the battle for the political soul of the Mountain West is this year's race for the seat of Colorado's retiring senator, Republican Wayne Allard.

Schaffer is well known for his command of policy and is well liked within the state's Republican establishment. Kelsey Alexander, chairman of the Douglas County Republicans, knew Schaffer before she moved to Colorado, having worked with him previously on forestry issues. "He didn't owe me anything, and I wasn't his constituent, but every time I went up to Capitol Hill he allowed me to speak to him. He knew his staff and he understood the processes of public-land management," she says. "We didn't always agree, but he always voted the way he told me he would. Completely outside of Colorado politics, this is a good guy." Earlier this year, the *Denver Post* headlined its candidate profile "Schaffer Runs on Promises Made Good."

Mark Udall represents Colorado's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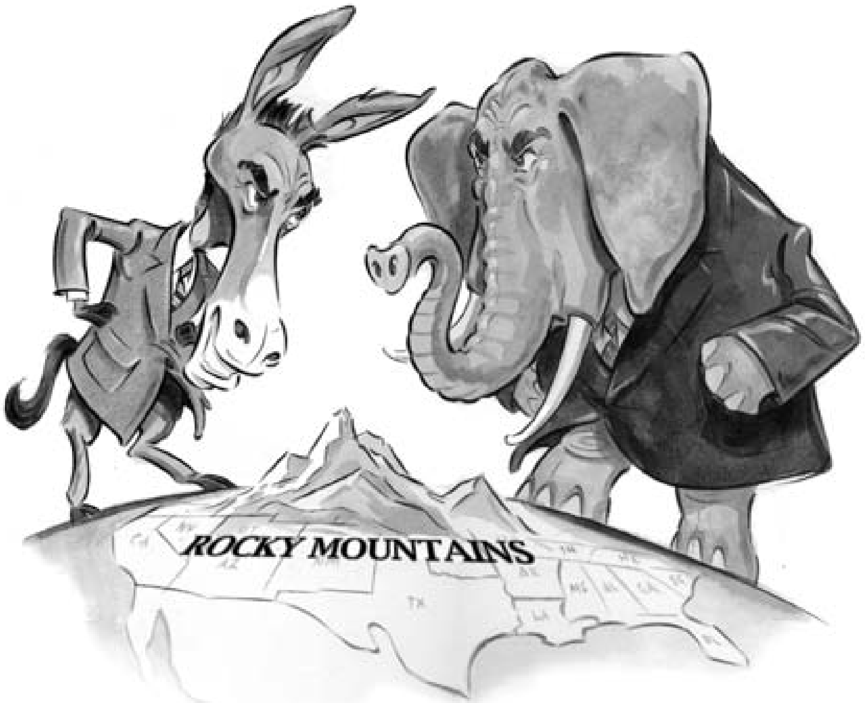
Second Congressional District, which is anchored by Boulder. Home to the University of Colorado, Boulder has a national reputation for being a liberal place, even compared with other college towns. "Boulder liberal" is an unwanted epithet in the rest of Colorado. And true to form, Udall is one of the more liberal members of the House, with a lifetime American Conservative Union rating of 8 percent. Udall is much more liberal than the other Democrats who have found recent success in Colorado: Governor Ritter is a pro-life Catholic, and first-term senator Ken Salazar ran as a moderate. Both Ritter and Salazar are also Colorado natives with rural backgrounds, which worked to their favor. Udall moved to Boulder as an adult, making him suspect in the eyes of many natives.

"The common thread with both of those wins was that they had no legislative record. Bill Ritter had been a district attorney and Ken Salazar had been an attorney general, and neither one had been in a legislative body where they had a record of votes," notes Schaffer's campaign manager, Dick Wadhams. "So they both were able to define themselves as moderates and, in some cases, even conservatives. And they got away with it." Both have proven more liberal than their campaigns suggested. Governor Ritter made a big push for unionization in the state, while Salazar's voting record has earned him a distinctly liberal 17 percent ACU rating.

Udall will have a hard time playing the moderate. "He has one of the most liberal voting records we've ever had in a member of Congress from Colorado," says Wadhams. The Schaffer campaign has had some fun at the expense of Udall's record, lampooning his liberalism in ads that show a hippie standing outside a Volkswagen van and praising Udall for co-sponsoring legislation with Dennis Kucinich that would have allocated $8 billion to create a cabinet-level Department of Peace. Suspicious smoke billows from the van at the end of the ad.

But Udall is doing his best to run from that record. "[Udall's] dogmatic environmentalism sells great in the Second Congressional District, but it doesn't sell nearly as well in a statewide race," says Rosen. "So he's waffling now on his historic opposition to drilling, his overstatements on global warming. . . . Suddenly, he sounds more moderate. It's transparent." Udall—whose wife is a former officer of the Sierra Club—is now running ads in which he's standing in front of an oil derrick, proclaiming: "We've got to produce our own oil and gas here in our country, and keep it here to power America's economy." Udall has voted against offshore drilling several times and voted against expanding refinery capacity on six occasions, according to the *Politico.*



It's hard to imagine Udall's newfound support for domestic energy exploration is anything other than an election gambit—especially considering that he broke a campaign promise regarding the issue. With gas prices soaring, Schaffer challenged Udall in a televised debate to vote against adjourning Congress in August if it hadn't passed an energy bill, and Udall pledged that he would. Two days later, Congress voted to recess without having passed an energy bill. The sticking point was Democrats' opposition to offshore drilling. The motion to recess passed by a single vote, 214 to 213. Udall missed that vote; had he kept his promise, he would have stopped Congress from leaving town without an energy bill. He missed the vote because he was delayed in getting back to Washington after a fundraiser. Oddly, he made the following vote, which occurred ten minutes later.

Udall isn't suffering much for his liberalism—most of the polls give him a slight edge, with Schaffer within the margin of error. But given Colorado's political history, Rosen is optimistic that the signs still bode well for Schaffer. "Colorado has always been a schizophrenic state, politically," he says. "They like to split their delegations, even their Senate delegations. So at the same time we had people like Gary Hart in the U.S. Senate and Bill Armstrong—a big-time liberal and a big-time conservative. I'm hoping that this time around Coloradans want to split their delegation as well—since we have the liberal Ken Salazar, it's time for Bob Schaffer."

But Kelsey Alexander, the Douglas County chairman, remains concerned that, against all reason, Democrats continue to find success in Colorado by misrepresenting themselves as moderates. "You can call Bob Schaffer a conservative Republican. It's the way he is," she says. "He's not going to run and hide from what he is. But Boulder-liberal Udall is running and hiding—because if they really knew what he is, they wouldn't vote for him." **NR**

DARREN GYGI

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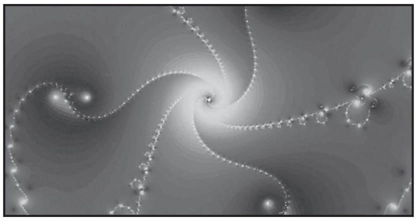
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Fractal: An infinitely repeating pattern

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■ **WALL STREET CRISIS IV**

Anatomy of a Train Wreck

The causes of the mortgage meltdown

STAN J. LIEBOWITZ

WHY did the mortgage market melt down so badly? Why were there so many defaults when the economy was not particularly weak? Why were the securities based upon these mortgages not considered anywhere near as risky as they actually turned out to be? Although there are many factors involved, the key and fundamental answer is that, in an attempt to increase homeownership—particularly among minorities and the less affluent—an attack on underwriting standards has been undertaken by virtually every branch of the government since the early 1990s. This weakening of underwriting standards had the intended impact of increasing home ownership and the unintended impact of increasing the price of housing, helping lead to a housing-price bubble that masked for many years the crucial (and predictable) problem of increased defaults.

After the government succeeded in weakening the underwriting standards, mortgages seemed to require virtually no down payment—which is the main key to the problem. There were also few restrictions on the size of monthly payments relative to income, little examination of credit scores, and little examination of employment history. This was the government's goal and, as homeownership rates increased, there was self-congratulation all around. The community of regulators, academic specialists, and housing activists all reveled in the increase in homeownership and the increase in wealth that ensued. The decline in underwriting standards was universally praised as an "innovation" in mortgage lending.

The resulting bubble brought in a large number of speculators, in the form of individuals owning one or two houses in the hope of quickly reselling them at a profit. It is estimated that one-quarter of all home sales were speculative sales of this nature. The speculators wanted mortgages with the smallest down payment and the lowest interest rate: adjustable-rate mortgages, option ARMs, and so forth. Once housing prices stopped rising, these speculators tried to get out from under their investments made largely with other people's money, which is why foreclosures increased mainly for adjustable-rate mortgages and not fixed-rate, regardless of whether the mortgages were prime or subprime. The rest, as they say, is history.

In good times, strict underwriting standards seem unnecessary. But like levees against a flood, they serve a useful purpose. When markets turn sour, these standards help ensure that homeowners will not bail out of homes at the first sign of price declines, that they will have the financial wherewithal to survive economic downturns, and that even if they can't make their

Mr. Liebowitz is a professor of economics at the University of Texas at Dallas and a research fellow at the Independent Institute. This article is adapted from a chapter in the book *Housing America: Building Out of a Crisis*, edited by Benjamin Powell and Randall Holcombe (forthcoming in 2009 from Transaction and the Independent Institute). A full version of the chapter can be found at www.independent.org.

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The Promised Land of Milk and Honey

Could it have been? Could the dream still come true?

In 1947, the British, who had the Mandate over Palestine, decided that they had enough of the decades of fighting and slaughter between Arabs and Jews. They washed their hands of the Mandate and turned it over to the United Nations.

What are the facts?

A solution not accepted. Wishing to end the bloodshed and to create a stable and, hopefully, permanent solution to the decades of conflict, the U.N. decreed a partition of the country west of the Jordan River into an Arab and a Jewish state. In deference to Arab Muslim insistence that it was their "third holiest city," the city of Jerusalem, the focus of all Jewish aspirations for two millennia, was to be "internationalized." For the Jews this was bitterly disappointing. Still, in order to create their dreamed-of state, to normalize the lives of the Jewish inhabitants, and to make possible the ingathering of the Holocaust survivors, they accepted the partition plan. They declared their state, *Eretz Yisrael* – the Land of Israel – and became a nation. Forever to his credit, US President Harry Truman recognized the nascent state of Israel within minutes of its declaration of independence.

> "Then the dream could finally be fulfilled . . .
> Milk and Honey could indeed flow."

The Arabs rejected the partition proposal out of hand. Instead, six Arab armies invaded the country from all sides. They vowed to wage a war of extermination. The Jewish population of only 650,000 people was lightly armed and almost hopelessly outnumbered. But in an almost Biblical miracle, the ragtag Jewish forces defeated the combined Arab might. They suffered horrendous casualties – about 1 per cent of the population. It was as if the United States were to lose 3 million people in a conflict. The Arabs also suffered greatly. Goaded mostly by their leaders to make room for the invading armies, about 650,000 fled the fighting. They were not accepted by their Arab brethren. They were interned and live to this day in so-called refugee camps, slum cities, in which they lead miserable and totally unproductive lives, dependent on the dole of the world. They are consumed with hatred against the Jews who, they believe, have deprived them of their patrimony.

At the end of Israel's War of Liberation, Jordan remained in possession of Judea and Samaria (which were renamed "The West Bank") and the eastern part of Jerusalem. Egypt remained in control of the densely populated Gaza Strip.

Prosperity despite unending attacks. But Israel was not allowed to live in peace. Virtually without interruption, it was victimized by attacks from Syria, Jordan, Lebanon, and Egypt. There were two major wars: the Six Day War of 1967 and the Yom Kippur War of 1973. Israel prevailed in both. It acquired major territories, most of which, in its never-ending quest for peace, it returned. Following these unsuccessful wars, the Palestinians subjected Israel to almost uninterrupted "intifadas," essentially one-sided civil wars, in which suicide bombings and other assorted terrors were the main weapons.

Despite these unending tribulations and absorbing close to 4 million migrants from all parts of the world, Israel prospered mightily. Its population is now close to 8 million. Over 1 million of them are Arabs. They are Israeli citizens, have all the rights of their fellow Jewish citizens, serve in the Knesset (Israel's parliament) and in the diplomatic corps. They are full participants in the economic prosperity that permeates Israel. Israel's product per person is on the same or higher order as that of most European countries. It is a center of science and of culture. Its industrial output encompasses some of the most advanced technology and sophisticated production in the world. Next to Canada, Israel is the most represented country on US stock exchanges. Most major high-tech companies have facilities – factories and research establishments – in Israel.

All of this is admirable, of course. But there is a flip side to this edifying story. That is the fate of the Arab descendants of those who fled Israel in the 1948 War of Liberation. Had they followed the example of the Jews and agreed to the partition decreed by the U.N., they could today be in the same advanced position as Israel, instead of the misery in which they live. Because there is no question that Israel would have been more than willing to enter into a federation with Palestine, in which citizens of both countries could peacefully partake in common prosperity.

Can that dream still come true? Of course it can! Israel has accepted virtually all of the "conditions" for reconciliation on which the Palestinians have insisted, with the sole exception of the demand for the "right of return." That "right" would swamp Israel with hundreds of thousands or even millions of Arabs. The country could not absorb them and it would with one stroke be the end of Israel as the Jewish state. Even for the thorny question of Jerusalem a compromise could be found. But, having been misled by the thuggish Arafat for decades, Arab Palestine needs a wise leader in order to finally make peace with Israel. Arab children could study at Israel's splendid universities and technical schools, instead of learning the "science" of martyrdom and the "skills" of suicide bombing. Then the dream could finally be fulfilled and peace and prosperity could be extended over all of the Promised Land. Milk and Honey could indeed flow.

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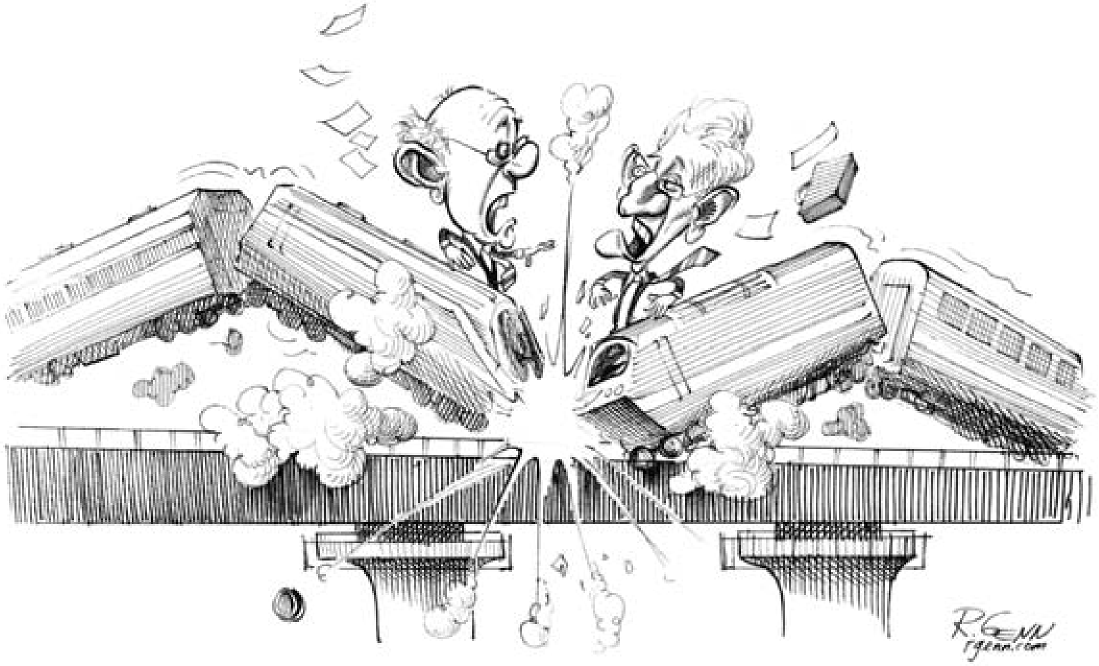
payments, mortgage owners will be covered by the equity remaining in the home. Removing these protections greatly increased the risk in this market when a storm did approach.

Unfortunately, it seems likely that our governing bodies have learned little or nothing from this series of events. If the proper lessons are not learned, it's all likely to happen again.

WEAKENING THE LEVEE

Homeownership wouldn't seem to require much help from the federal government. If you let builders build, developers develop, and lenders lend, you will soon have people living in private homes. In 1900, before the federal government became involved in the housing industry, homeownership in the U.S. stood at 47 percent (in 2000, it was 66 percent). That was before the enormous wealth increase of the 20th century and before mortgage deductibility was enacted as a form of homeownership subsidy, both factors that would be expected to increase the ownership of homes. Clearly, homeownership rates would have increased even without flexible underwriting policies.



ROMAN GENN

Nevertheless, during the Great Depression, homebuilding, like many other industries, experienced a profound decline. Mortgages were generally of a short duration, often only a few years. Because banks were cash-strapped and nervous about being paid, when a mortgage came due, instead of offering to refinance it, the banks often asked for payment in full. It was difficult or impossible for homeowners, even those with the financial ability to handle a mortgage, to pay the full amount of the mortgage all at once.

To help alleviate such problems, the federal government in 1934 created the Federal Housing Administration, which guaranteed mortgages against default, thus removing the risk from the bank. This was the first major intrusion in the mortgage market. In 1938 Fannie Mae was created to purchase FHA mortgages. Its purpose was later altered somewhat, and it now purchases and repackages a large share of all private mortgages in the country.

The government became heavily involved in the mortgage market in a new way after concerns about mortgage discrimination arose in the 1970s. Congress passed the Community Reinvestment Act (CRA) in 1977, requiring banks to conduct business across the entirety of geographic areas in which they operated, thus preventing them from doing business in a suburb, say, while neglecting a downtown area. Congress had already (in 1975) passed the Home Mortgage Disclosure Act (HMDA), which required that mortgage lenders provide detailed information about mortgage applications. Every year banks receive a score on their CRA compliance, just as they received a score on their financial viability; and banks strive to do well on both parts of their examination.

In 1991, the HMDA data were expanded, allowing for comparison of rejection rates by race. Various news organizations started publicizing simple examinations of HMDA data showing that minorities were denied home mortgages at a rate far higher than that for whites. It was, and still is, common for newspapers in large cities, shortly after the yearly HMDA data are made public, to do exposés examining the differences by race in rejection rates on mortgage applications. Although such comparisons are completely unable to distinguish between race discrimination and differences in creditworthiness as explanations, and are therefore fairly meaningless, these results were trumpeted in the media.

The last defense of banks trying to rebut charges of engaging in biased mortgage lending appeared to fall when the Boston Fed conducted a seemingly careful statistical analysis in 1992, which purported to demonstrate that—even after controlling for important variables associated with creditworthiness—minorities were denied mortgages at higher rates than whites. In fact, the study was based on horribly mangled data: Every later article of which I am aware—even those written by individuals who ultimately agreed with the conclusions of the Boston Fed study—accepted this. The authors of the study, however, stuck to their guns even

7 THINGS WE NEED TO FIX

Current Drug Policy	The Cure
1. Criminals and terrorists control drug production.	**1**. Drug production controlled by government.
2. Sales are completely unregulated. Kids can buy drugs anywhere.	**2**. Regulated sellers. No street sales, and no sales to kids.
3. No taxes are collected.	**3**. Taxes pay for treatment and education.
4. Trade disputes are settled with guns and violence.	**4**. Violence will drop dramatically as with repeal of alcohol prohibition.
5. We spend $70 billion a year on enforcement	**5**. Enforcement paid for by user fees.
6. No labeling or purity standards.	**6**. Products must meet purity and labeling standards.
7. $250-350 billion per year in illegal profits goes to organized crime.	**7**. Legal profits to go only to businesses that follow the rules.

A river of illegal, untaxed cash fuels organized crime in the US, civil wars in Latin America, and terrorism in the Middle East.

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in the face of the overwhelming evidence of error. And most politicians jumped to support it.

My colleague Ted Day and I investigated the Boston Fed study, and we were shocked at the poor quality of its data. Its information—if it were to be believed—implied that hundreds of loans (out of 3,000) had interest rates that were much too high or much too low (about 50 loans had negative interest rates); 44 loans were supposedly rejected by the lender but then sold in the secondary market—which, of course, is impossible; two separate measures of income differed by more than 50 percent in over 50 cases; hundreds of these mortgages did not match the original data set from which they came; and so on.

When we attempted to conduct the statistical analysis removing the impact of these obvious data errors, we found that the evidence of discrimination vanished. Without discrimination, of course, there would be no reason to try to "fix" the mortgage market by changing lending standards. But the fix was in—there was no standing in the way of this train, to paraphrase a Fed economist who warned me not to waste my time.

Indeed, when an economist at the FDIC, who—unlike everyone else—actually had access to the raw loan files, suggested that the data had serious errors, the Boston Fed authors accused him in a journal article of "fudg[ing]" his data (as the *New York Times* put it). That the journal editor allowed the Fed authors to make this unfounded claim while refusing to allow a response was an amazing breach of academic etiquette, which only indicates the political power of this issue. When I gave a seminar on this subject at the Dallas Fed, to which the Boston Fed authors were invited as a courtesy, they originally asked for 15 minutes to make their case after my 90-minute talk. Fair enough. But 30 minutes before I was to begin my talk, I was told by an embarrassed Dallas Fed employee that I was to split my time with them, 45 minutes each. They, unlike me, refused to take questions during their talk—during which they falsely claimed that they had a new data set without data problems, and that it gave the same results. They then left, claiming they had to catch a plane, before they could be questioned. Slimy stuff.

The supporters of relaxed underwriting standards had no interest in engaging in a fair debate of the value of lower underwriting standards or the existence of mortgage discrimination. They were too busy trying to reengineer society according to their rules.

Within a few months of the appearance of the Boston Fed study, a new manual appeared from the Boston Fed. It outlined the new standards that would lead to today's mortgage meltdown: "Management should be directed to review existing underwriting standards and practices to ensure that they are valid predictors of risk. Special care should be taken to ensure that standards are appropriate to the economic culture of urban, lower-income, and nontraditional consumers." Now, you might have thought that financial standards that indicate a high probability of success in making mortgage payments—such as steady employment, a record of savings, and keeping the loan payment small relative to income—would have been prudent standards for borrowers of all incomes and all races. In fact, you would have been correct. But in the world of mortgage discrimination the goal is to increase mortgages for certain "non-traditional" customers, and financial standards will have to be twisted or discarded if necessary.

Banks responded just as the government wanted: They began to loosen lending standards. And loosen and loosen and loosen.

One of the banks that jumped most enthusiastically onto this bandwagon was Countrywide, which used its efforts to lower underwriting standards on behalf of minorities (and everyone else) to catapult itself into becoming the nation's leading mortgage lender. For this behavior it received preferred treatment from Fannie Mae. Testimonials to its virtue abound: In 2000, *La Opinión* (the nation's leading Spanish-language newspaper) named Countrywide "Corporation of the Year" for its outstanding work in the Latino community. The LULAC (League of United Latin American Citizens) chair of national housing said, "Through the generosity of ethical businesses like Countrywide, we can make significant strides towards bringing the pride of homeownership to our communities and enhancing the quality of life for more Latinos."

According to a flattering report by the Fannie Mae Foundation, Countrywide was a paragon of lending virtue: "Countrywide tends to follow the most flexible underwriting criteria permitted under GSE and FHA guidelines. Because Fannie Mae and Freddie Mac tend to give their best lenders access to the most flexible underwriting criteria, Countrywide benefits from its status as one of the largest originators of mortgage loans. . . . When necessary—in cases where applicants have no established credit history, for example—Countrywide uses nontraditional credit."

In the world of mortgage discrimination the goal is to increase mortgages for certain 'non-traditional' customers, and financial standards will have to be twisted or discarded if necessary.

THE MAKING OF A BUBBLE

So we see how government got the ball rolling toward the eventual crisis, with the banks' initially forced cooperation (although they became happy participants when they found they could make money selling these mortgages). But why did investors, who are supposed to be cool and rational, go along? Very specifically: Why were purchasers of mortgages

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(i.e., mortgage-backed securities) willing to treat them as AAA—and why were the rating agencies willing to give them AAA ratings? It's not clear that any answer will be completely satisfactory. But if we understand how universal the idea of flexible underwriting standards had become, how dangerous it was to suggest anything else (and risk being labeled a racist), and how strong this force is even now (there are blogs referring to me as a racist based on the ideas I express in this essay)—it becomes possible to understand how investors, who, just like other human beings, are prone to mistakes (the dot-com bubble is another recent example), might be influenced by the same arguments.

To understand this, it's useful to examine the sales pitches that were made. I was able to find a 1998 sales pitch from Bear Stearns, the first underwriter of mortgage-backed securities for loans banks undertook to fulfill their CRA obligations. This sales pitch shows us the thinking being used to sell these products in secondary markets, and probably also being used to persuade the security-rating organizations. The pitch generally follows the script laid out by the Boston Fed, and followed by the entire regulatory apparatus surrounding the housing industry. Faced with overwhelming acceptance of these facts by these presumably knowledgeable experts, why wouldn't an investor believe it?

The Bear Stearns pitch claimed that LTV (loan-to-value, or the size of the loan relative to the value of the home) had once been the key consideration for predicting defaults—but suggested that it was no longer appropriate for "affordable" loans. The traditional logic, of course, remains sound: If someone puts 20 percent (the traditional down-payment level) down on a house, he will be unlikely to default. Even if the homeowner has trouble making the payments, as long as prices don't fall by 20 percent he will prefer to sell the house and get some of the down payment back. Yet, in this sales pitch, we encounter a feeble attempt to explain why this is *not* true for low-income borrowers:

> Traditionally rating agencies view LTV as the single most important determinant of default. . . . While we do not dispute these assumptions, LTVs have to be analyzed within the context of the affordable-loan situation. Three or 4 percent equity on a $50,000 house is significant to a family of limited financial resources. In relative terms, $1,500 to $2,000 could easily mean three to four months of advance rent payments in their previous housing situation. . . .
>
> Obviously, there are more delinquencies with the higher LTV loans than the lower, but there is no tight linear correlation between the LTV levels. Delinquency rates increase along with the LTV levels, but not proportionately. As a result, the use of default models traditionally used for conforming loans have to be adjusted for CRA affordable loans.

Let's examine this logic. LTV has been the most important predictor of default. But when it comes to "affordable" housing, LTV is not to be taken as seriously. Why? The real reason is that if traditional LTVs were imposed on applicants for "affordable" loans, most of these applicants would be unable to come up with anything like a 20 percent down payment, and the loan would be rejected. That is a politically unacceptable result. The logic being put forward by Bear Stearns appears to be that 3 to 4 percent of a small mortgage is more important to poor people than 3 to 4 percent of a bigger mortgage is to wealthier applicants. This is a mere assertion, unsupported by facts.

Also, the mortgages of low-income buyers have had, for the last 30 years at least, much higher default rates than traditional mortgages, a result that is too often conveniently ignored. Subprime mortgages have tended historically to be foreclosed at ten times the rate of prime mortgages, and FHA loans are foreclosed at about four times the rate of prime mortgages.

The Bear Stearns pitch also pooh-poohs credit ratings as a lending standard: "While credit scores can be an analytical tool with conforming loans, their effectiveness is limited with CRA loans. Unfortunately, CRA loans do not fit neatly into the standard credit score framework. . . . Do we automatically exclude or severely discount . . . loans [with poor credit scores]? Absolutely not." They agree with the Boston Fed manual that traditional credit scores are not useful for poor and moderate-income households—but they don't really provide any reason for this belief, except to say that credit scores are complicated constructs.

The ratings agencies should not have known how to rate these loans, since they had little experience with them. Nevertheless, in a show of bad judgment, they decided to rate them based on their performance during the housing bubble—as if the performance would be the same when the housing bubble burst. Big mistake.

The strongest incentive for eliminating traditional underwriting standards, as we have seen, came from attempts to help poor and minority borrowers. Nevertheless, newspapers tell us that upper-income individuals are being foreclosed on in large numbers as well. There are two points that need to be kept in mind. First, preliminary evidence (in a recent University of Chicago study) indicates that the current increase in defaults has been concentrated in those areas populated by poor and moderate-income borrowers. Further, poor and moderate-income areas had the largest share of speculative home buying, and speculative home buying appears to be the leading cause of current home foreclosures. Thus the evidence is that the foreclosures are disproportionately a problem of the poor and moderate-income areas. Second, although the original mortgage innovations were rationalized for low- and middle-income buyers, it is naïve to believe that once this sloppy thinking had taken hold, the decade-long attack on underwriting standards would not also lead to more relaxed standards for higher-income borrowers.

THE (URBAN) LEGEND OF THE SUBPRIME VAMPIRE

The immediate cause of the rise in defaults is the reversal in the remarkable price appreciation of homes that occurred from 1997 to 2006. But the relaxation in lending standards was the cause of the housing-price bubble in the first place. Homeownership rates had, except for a small but temporary increase in the late 1970s, been basically flat for 25 years prior to 1995, whereupon they began a steep ascent. The relaxed lending standards, whose mechanics were put in place beginning in 1993, increased the pool of potential homeowners. This increase in demand for houses led to a rise in house prices, as Econ 101 would predict. This is not a controversial result. A study by the Federal Reserve Bank of San Francisco concluded as much in 2006: "It is likely that *much of the increase [in homeownership rates] is due to innovations in the mortgage-finance industry* that may have helped a large number of households buy homes more

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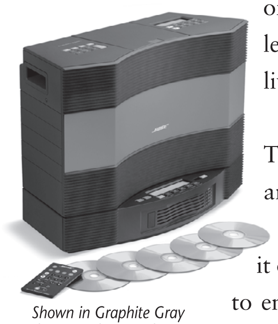

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easily than they could have a decade ago" (italics added). Of course, that was written before the economic damage from the bubble's collapse was apparent and before accountability became an issue.

Today, very few people in the area of housing regulation seem willing to point the finger at the relaxed standards in fear of where that finger will lead. Instead, almost all the blame is focused on subprime lenders (who happen to specialize in loans that use relaxed lending standards). Unscrupulous subprime lenders, we are told, are financial vampires, sucking the lifeblood from hypnotized mortgage applicants. Forgotten in this story is any explanation of why subprime lenders suddenly became so predatory. Did they wake up one morning with changed personalities? There is no reason to believe that subprime lenders became more unscrupulous in the past few years than they had been before, or that their level of unscrupulousness is much different than that of any other profession, say politicians. The fact is that the increase in subprime lending was consistent with the government's effort to increase lending to poor and minority applicants. Countrywide, the largest subprime lender by far, winner as we have seen of minority awards and accolades from government banking regulators before the mortgage meltdown, saw itself cast as a predatory lender by the very same people who had previously praised it, when blame began to be assigned for the mortgage meltdown.

There is a more substantial problem with the hypothesis that predatory subprime lenders caused the mortgage meltdown: the fact that *subprime loans did not perform any worse than prime loans*. The media often claim that prime loans started suffering from defaults only after the problems in the subprimes "seeped" into the prime market. Yet prime foreclosures began their increase at the same moment (third quarter of 2006) as subprimes. Further, the prime-foreclosure rate went into territory that was far above anywhere it had been in the prior ten years, much more so than was the case for subprimes. The increase in foreclosure-starts, from the second quarter of 2006 until the end of 2007, was 39 percent for subprime loans—and 69 percent for prime loans. There is no evidence to support a claim that somehow the subprime market had an unprecedented increase in foreclosures, and that later the primes accidentally caught the contagion. Why would mortgage defaults increase so greatly in the prime market, where there were, by definition, no subprime vampires preying on the innocent?

As an aside: The prime/subprime distinction is not related to differential increases in foreclosure rates, contrary to numerous stories to that effect. The key distinction is that between adjustable and fixed-rate mortgages, with the former having much higher increases in foreclosure rates than the latter. This is consistent with a view that speculators, who would prefer adjustable mortgages (which have lower interest rates) since they do not plan to hold houses very long, are responsible for many of the current foreclosures. Since flexible underwriting standards allowed homes to be purchased with little or no cost to the purchaser, they allowed speculators to bet without using any of their own money.

THE HARD ROAD AHEAD

We are now experiencing one of the worst financial panics in the post-WWII era. Everyone knows that the increase in mortgage defaults has been the primary driver for these financial difficulties. The mortgages with outrageously lax underwriting standards that have been justifiably ridiculed in the press are not outliers, but unfortunately representative of a great many recent mortgages. The question being asked is the correct one: How did it come about that our financial system allowed such loans to be made, and even celebrated them? The answers that are being given are not yet the correct ones, however. The main answer that is being given, that unscrupulous lenders were taking advantage of poorly informed borrowers, does not fit the evidence.

No, it is the mortgage "innovations" that are to blame—and the culpability for them lies squarely on the doorstep of the federal government and the political activists working with it. Without these innovations we would not have seen prime mortgages made with zero down payments, which is what happens when individuals use a second mortgage to cover the down payment of the first. Nor would we have seen "liar loans" where the applicant was allowed to make up an income number—unless the applicant was making an enormous down payment, which is the legitimate historical use of such loans.

Nor is it a cheap shot to say these problems were predictable. A co-author and I predicted increased foreclosures in 1998. Even the *New York Times*, in a surprisingly prescient 2004 business-section article, blames the Clinton administration's 1994 decision to increase homeownership for leading to a situation in which "the move to push homeownership on people that historically would not have had the finances or credit to qualify could conceivably and ultimately turn Fannie Mae's American dream of homeownership into the American nightmare of homeownership."

The political housing establishment remains committed to flexible underwriting standards, although it is unwilling to accept responsibility for the havoc those standards have wrought. Unless this attitude is corrected, soon, today's bailout crisis will only be the first, with more to come. **NR**

The political housing establishment remains committed to flexible underwriting standards, although it is unwilling to accept responsibility for the havoc those standards have wrought.

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■ 2008 II

Sarah Palin, Governor

Why has she been successful in Alaska?

BYRON YORK

WATCHING press coverage of the Republican candidate for vice president, it's sometimes hard to decide whether Sarah Palin is incompetent, stupid, unqualified, corrupt, backward, or—or, well, all of the above. Palin, the governor of Alaska, has faced more criticism than any vice-presidential candidate since 1988, when Democrats and the press tore into Dan Quayle. In fact, Palin may have it even worse than Quayle, since she's taking flak not only from Democrats and the press but from some conservative opinion leaders as well.

After John McCain unexpectedly chose Palin as his running mate, reporters raced to Alaska to look into her family life, including her teenage daughter's pregnancy; into her per diem expense requests; into her controversial firing of the state's public-safety commissioner; into her husband's role as informal adviser; into the gifts she received; and into much more. Those investigations have yielded hundreds of stories. But Palin's time in the governor's office hasn't been all, or even mostly, family drama and minor controversy. She was also, lest we forget, the state's chief executive. So, what did she do every day? How deeply involved was she in the workings of government? What were her priorities?

ZUMA

And also: Before Palin moved into the governor's office, she was mayor of Wasilla, Alaska, population 7,028. How did she adjust to a big new job? Was she up to it? What was her learning curve? Discovering how she made that transition could tell us how she might handle becoming vice president.

Yes, there are legitimate concerns about Palin's lack of experience. Who wouldn't, at the very least, wish that she had more time in the governor's office on her résumé? But a look at Palin's 20 months in power, along with interviews with people who worked with her, shows her to be a serious executive, a governor who picked important things to do and got them done—and who didn't just stumble into an 80 percent job-approval rating.

THE PALIN PIPELINE

The top issue of the 2006 Alaska governor's race was whether, and how, to build a pipeline to bring the estimated 35 trillion cubic feet of natural gas under Alaska's North Slope to market. Palin's Republican predecessor, Frank Murkowski—a man who had spent nearly 22 years in the U.S. Senate before becoming governor—wanted to make a deal with three big oil companies, Exxon Mobil, BP, and Conoco Phillips.

A lot of critics, including Palin, thought Murkowski's proposed deal gave too much to the companies. For one thing, it called for Alaska to relinquish its right to tax the pipeline, and instead agree to a series of payments from the oil companies—payments that would be locked in for as long as 45 years. In addition, the deal would have rewritten leases and other regulatory devices that the state normally controls. It was an unprecedented proposal, representing sweeping changes from the traditional way of doing business—and not to the state's advantage.

Palin defeated Murkowski in the primary, and went on to win the governorship, on a platform of throwing out the old deal and starting fresh. Once in office, she was deeply involved in making that happen. "She had four principles she wanted to bring to the process," says Joe Balash, who served as Palin's special assistant for energy issues. "One, to have competition. Two, to have clear and objective measures of progress, because with a massive project like that it's going to be years before any dirt turns. Three, there had to be a commitment to expansion [the pipeline would have to be big enough to handle more gas in the future]. And four, it had to be done without surrendering the state's sovereignty."

It was a big, and extraordinarily complex, task. There was no consensus on how it should be done. But Palin, by all accounts, assembled a first-rate group of people to come up with what eventually became a proposal to grant a license to the company TransCanada to build the pipeline. "I give her credit for hiring good people," says Beth Kerttula, the Democratic minority leader in the Alaska house of representatives who worked with Palin on oil and gas issues and has lately emerged as one of Palin's leading critics. "She had a strong team."

There were times during the negotiations when it appeared Palin's proposal would fall through, perhaps not even getting to a vote in the legislature. Associates say she was determined to prevent that. "She went literally from office to office asking that, regardless of how people intended to vote, that they permit a vote to take place," Balash recalls. "If she hadn't made those visits, it in all likelihood would never have come to a vote."

And when she made those visits, she scored points with legislators of both parties. "On the issues where I worked with her, she listened, and in the long run, she even overrode her own team on things that House Democrats thought were important," Kerttula recalls. Last summer, Palin's strategy led to victory, when Alaska's house and senate approved the TransCanada proposal.

Noting that Palin had also, in 2007, won a fight to raise taxes on the energy companies, the *Anchorage Daily News* reported that the pipeline deal "sealed the popular Republican governor's second major victory in two years against not only her opponents in the Legislature but also major oil companies Palin sometimes has poked publicly." Her approval rating soared.

RUFFLING A TON OF FEATHERS

Palin's other top priority was an overhaul of the state's ethics laws. It became something of a signature issue for her. In 2003, after she served as mayor of Wasilla and had run unsuccessfully for lieutenant governor, she was appointed to chair the state Oil and Gas Conservation Commission. While there, she became convinced that fellow commissioner Randy Ruedrich, the head of the Alaska Republican party, was conducting party business on the commission's time. Palin filed an ethics complaint against Ruedrich, leading to a long and contentious investigation. In 2004, Ruedrich admitted guilt and agreed to pay a $12,000 fine, which was the largest such punishment ever in Alaska.

Palin's actions associated her with ethics and reform in the minds of many Alaskans, and it paid off when she ran for governor. In addition to the Ruedrich matter, the state faced several other high-profile government-corruption cases, and it was not terribly unusual to find state lawmakers who had consulting contracts with companies that had business before the legislature. "As a candidate, she owned the ethics issue," says John Bitney, who was Palin's top adviser on ethics. "It was who she was. And it was pretty clear that there was a political groundswell to make changes."

Once in office, Palin asked a prominent former legislator, Ethan Berkowitz, and a former U.S. attorney, Wev Shea, to write a position paper on ethics. The move did

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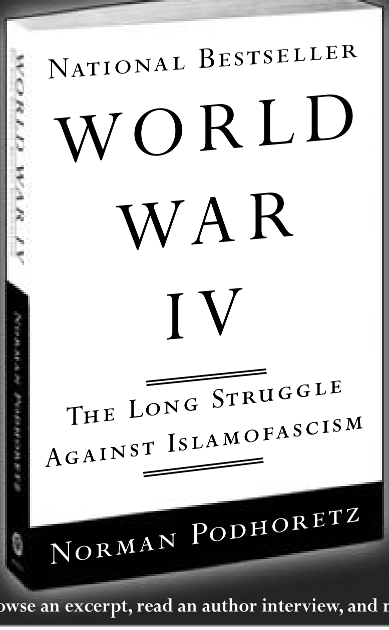

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not endear her to Republicans in the legislature, because Berkowitz was a Democrat, and Shea was a vocal critic of Republicans (though a Republican himself). "She ruffled a ton of feathers," says Paulette Simpson, a Palin ally who is president of the Alaska Federation of Republican Women. "That didn't get her off on a good footing with Republicans."

Her proposals included the electronic filing of campaign-finance reports, tougher conflict-of-interest laws, more restrictions on gifts from lobbyists, a more extensive ban on lobbying by just-departed officials, a ban on lobbying by spouses of legislators, and several other measures. Her plan was just one of several competing proposals in the legislature, and, according to Bitney, she showed a pragmatic desire to get the reforms done even if her bill was not the one that passed.

As it turned out, Palin's bill did win approval, and the new ethics rules were signed into law, with bipartisan support, in July 2007. Democrats attributed some of her success to luck—"She came in at a time when basically the timing was right," says Beth Kerttula—but the fact is the new, inexperienced governor had won another major victory.

KILLER SHRUBS AND ZAMBONI BLADES

There's no doubt that energy and ethics have dominated Palin's time as governor. But she has made her mark in other ways as well. One of her favorites—she has talked about it quite a bit since she began the race for vice president—is her decision, in May of this year, to veto $268 million in proposed spending, which she described as money for "things like dealing with killer shrubs and Zamboni blades that are not the state's highest priority at the time."

And then there was the time earlier this year when she fought to cut Alaska's business-licensing fee from $100 to $50 a year. (It had risen from $25 to $100 during the Murkowski administration.) Frustrated by the legislature's inaction, Palin went to Alaska's department of commerce and got the e-mail addresses of 23,000 business owners in the state. She then sent them a message, saying the $100 fee "has caused a hardship for those who are helping grow our economy, especially people who operate home-based and part-time businesses." Legislators were angry—some accused Palin of inappropriate lobbying—but she won the day, and the fee was cut.

Of course, there are lots of other issues that governors deal with—health care, social services, transportation, and others—and on some of them Palin has yet to make a significant mark. She is also facing a serious scandal, the so-called Troopergate affair, concerning her firing of public-safety commissioner Walt Monegan. The controversy stems from Palin's allegedly pressuring Monegan to fire state trooper Mike Wooten, who had been involved in an ugly divorce from Palin's sister and who had allegedly threatened members of Palin's family. When Wooten wasn't fired, Palin removed Monegan, which led to bipartisan calls for an investigation. (Palin told ABC news Monegan was dismissed for poor job performance.) The legislature began one over the summer, and a number of Palin's allies and opponents say it would likely have been handled quickly and without any great controversy—until Palin was picked for the Republican ticket. Now it's war, and Palin faces accusations of stonewalling.

Still, it's fair to say that overall, Palin's time in office, from her swearing-in until the moment John McCain picked her to be his running mate, has been a success. And from her handling of the issues she has tackled, it's possible to see a pattern in the way she approaches governing.

Palin's record in office has quieted many of those who said she simply did not have the experience or ability to serve as governor.

First, she hires well. "There was a pretty good team of people assembled right away to come in and start with her big-picture principles and develop a process and legislation to carry that out," says Joe Balash. "I would say that her management style is to give her staff, her cabinet, a pretty long leash, but with very high expectations—and she's not afraid to tell you that you didn't get it right."

Second, she is involved with details on some big things, but not on everything. "When it comes to issues that she cares about, that she knows the public cares about, she's got all kinds of time and prioritizes things in a big way," says one insider who has worked with her and asked not to be named. "For the mundane tasks of government . . . say, regulations for the Kenai River, she instead looks for recommendations from her cabinet and the regulatory agencies, but she's not going to get in and argue specific details."

Third, she is dead set on fulfilling campaign promises. "There was this absolute expectation that if it was an issue that had been talked about during the campaign and there was a particular commitment that she had made, then we had to live up to it, no matter how difficult," says Balash, "because her big thing was restoring the confidence of the public in state government."

It should be noted that none of that makes Palin unerringly conservative. Yes, she calls herself a conservative, and she seems dedicated to reducing the size and cost of government when she can, but she's also perfectly happy to raise taxes on a big, unpopular (oil) company, if that's what voters want. Her conservatism comes with a substantial portion of populism.

Still, Palin's record in office has quieted many of those who said she simply did not have the experience or ability to serve as governor. "She's been in office for two years now and has been fairly successful," says Gene Therriault, a Republican state senator and an ally of Palin's, "which either belies the argument that she was not prepared or is an argument for the fact that she is a quick study." **NR**

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■ **NR SPECIAL**

‘United in the Faith, Differing On a Particular’

In which our heroes debate the Panama Canal

WILLIAM F. BUCKLEY JR.

IN 1977 Warren Steibel, the producer of my television show, *Firing Line*, came up with the idea of supplementing its weekly schedule with special two-hour programs four or five times per year. The first of these, in January 1978, was a formal debate on an issue that had divided the American Right.

The question of the Panama Canal’s future had recently become acute when President Jimmy Carter signed a treaty that would cede control of the Canal Zone to Panama. This would mean a diminution of American control over the canal itself, and a hint of any such thing—especially so soon after the Vietnam debacle—greatly alarmed conservative America.

I traveled to Panama in October 1976, and the visit caused me to change my opinion. Departing from conservative ranks, I urged the Senate to ratify the proposed treaty, mainly on the grounds, as I wrote in my column, that Panamanians of all political colorations saw “the reintegration of the Canal Zone as something of a magical restoration of the nation’s dignity: the elimination of an ugly birthmark that now condemns Panama to wander around the world conspicuously sullied.”

Earlier that year, Ronald Reagan, energetically campaigning for president, had begun rallying conservative forces to stand behind the existing arrangements. Reagan had lost narrowly in the New Hampshire and Florida primaries, but in North Carolina, he made his opposition to the treaty (which President Ford had already started negotiating) a major part of his campaign—and he won. It proved too late to wrest the nomination from Ford, but Reagan did not forget the impact, especially among conservatives, of his stand on the Panama Canal.

We went back and forth on the subject over the next year, in public and in private. Then I asked him, in the course of a telephone conversation, whether he would consent to debate the subject in a two-hour *Firing Line*. His first reaction was to say, “Why would *I* want to get into a debate with *you*?”—but eventually he reconsidered. We exchanged correspondence about the issue in the weeks that preceded our debate.

This article is adapted from WFB’s book *The Reagan I Knew*, forthcoming from Basic Books, on which he was working at the time of his death.

SEPTEMBER 12, 1977

Dear Ron:

I know that we are almost certain to continue disagreeing in the matter of the Canal, but I am most anxious both to read everything you say on the matter, and to have you read everything I write on the matter, and accordingly I am asking Miss Bronson to send you all the columns I have written on the subject since the announcement of a month or so ago. It would be good to talk to you about it, and I’ll look for an opportunity. Sorry you couldn’t join me in New York.

With warm regards,
Bill

SEPTEMBER 27, 1977

Dear Bill:

I was happy to get your letter and have read all your fine columns; however, I must confess that we are still disagreeing on the matter of the Canal. I am enclosing some things that I have done, including my testimony before the Senate Committee.

I appreciate your kind words about me in several of the columns and am happy we carry on our disagreement in this manner. I assure you, it could not in any way affect the friendship I feel for you.

I look forward to a day when we can sit down and discuss this, so won’t try to argue any of my points in this letter. One thing I do hope you understand is that I have not simply been demanding the status quo. I believe there are alternatives, other things we could do, as you will note in some of the material that I am sending to you. I am concerned about the seeming weakness in which we did not negotiate, we simply made concessions. The United States, dealing from strength, could say to the Panamanians that we are interested in internationalizing the Canal, and possibly creating an American Canal in which the governing board would consist of representatives of all our neighbors in North, Central, and South America.

But this we can discuss, drink in hand, when we have an opportunity.

Again, thanks and best regards.

Sincerely,
Ron

OCTOBER 12, 1977

Dear Ronnie:

Thanks for your good letter. You have some extremely good material, and I think our public discussion of the affair will be extremely lively. I am trying to think offhand of a precedent—two old warriors, united in the faith, differing on a particular. It should be refreshing.

With warmest regards,
Bill

As plans for the debate took shape, we secured the assistance of the principal treaty negotiator, Ambassador Ellsworth Bunker. He would not take sides in the debate but would be on hand to answer technical questions concerning the treaty from either side. For our moderator we got Sam Ervin, a North Carolina Democrat recently retired from the Senate, where he had presided over the liquidation of Richard Nixon.

I suggested to Reagan that each of us bring along two debating partners and one military expert. On my side were my colleague James Burnham, who had been a senior editor of NATIONAL REVIEW since its inception and was the foremost (in my judgment) anti-

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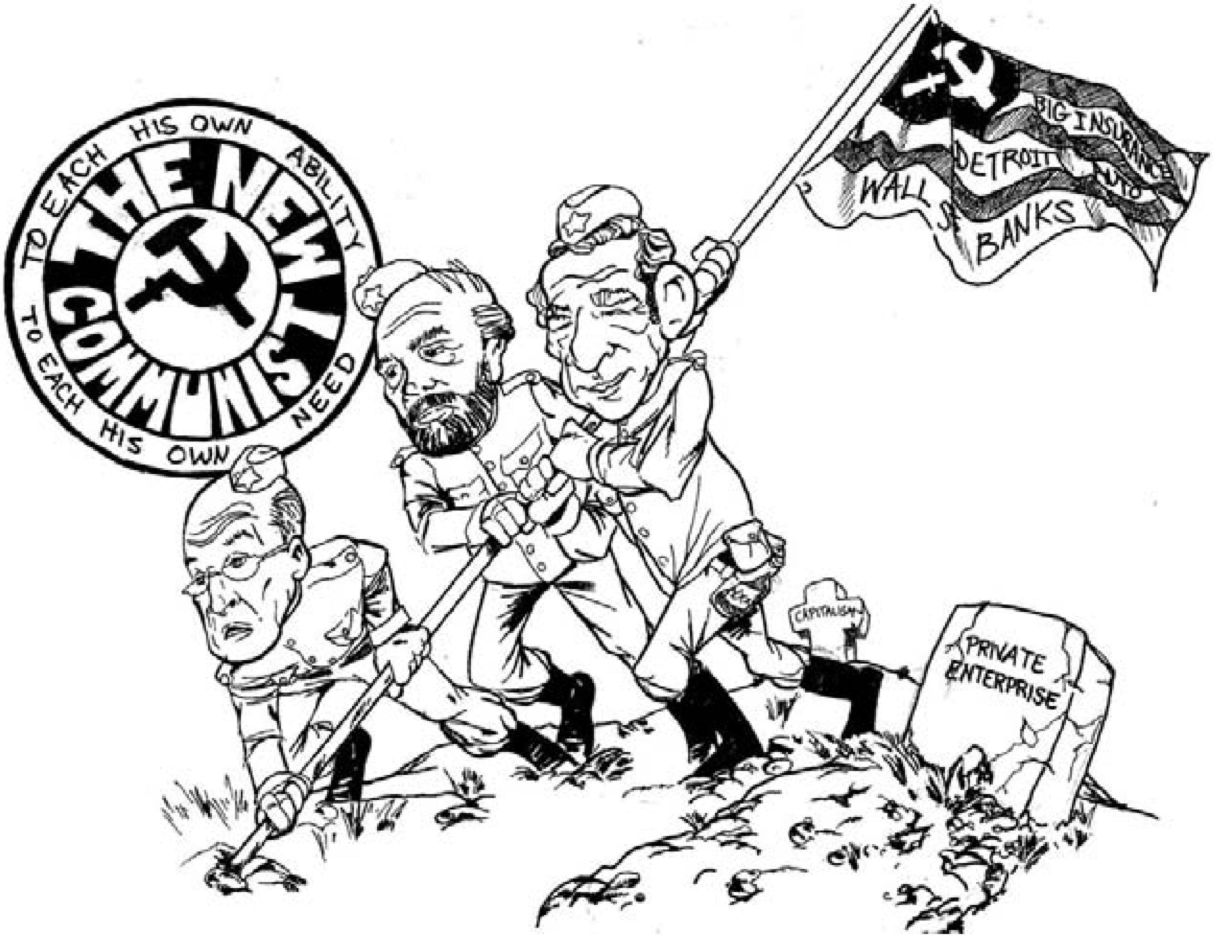
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Communist strategist in the free world, and George Will, who had briefly served as NATIONAL REVIEW's Washington columnist and had become one of the nation's premier polemicists. My military expert was Adm. Elmo Zumwalt, former chief of naval operations, and a stalwart and resourceful anti-Communist.

On Reagan's side were Patrick Buchanan, the talented author, columnist, and polemicist, and Prof. Roger Fontaine of Georgetown University, a highly informed anti-Soviet expert specializing in Latin America. Reagan's military expert was Adm. John McCain Jr., the (theoretical) supreme commander of our military forces during much of the Vietnam War and the father of future senator and presidential candidate John McCain.

Reagan was the first speaker. He performed eloquently for 15 minutes. I followed for 15 minutes. Each of our seconders made a briefer statement. Then the time came for the cross-examination.

> **REAGAN:** Well, Bill, my first question is, Why haven't you already rushed across the room here to tell me that you've seen the light? [*Laughter and applause.*]
> **BUCKLEY:** I'm afraid that if I came any closer to you the force of my illumination would blind you. [*Laughter and applause.*]
> **REAGAN:** Well, all right. The United States has run the canal at no profit. We have maintained its neutrality throughout the history of the Canal. We have certainly vastly benefited Panama. What do we gain by making this change?
> **BUCKLEY:** Well, what we gain by making this change, to quote myself, is increased security and increased self-esteem . . .

I called on Ambassador Bunker to speak to a technical question, and then Reagan resumed his interrogation.

> **REAGAN:** Bill, the next question is: If the Canal is so unimportant to us commercially, defense-wise, or whatever, why don't we just *give* it to them? Why do we *pay* them to take it off our hands? And if it *is* important to us, why don't we *keep* it?
> **BUCKLEY:** You have outlined nonexclusive alternatives. In the first place, under the projected treaty there would be a net income to the United States for the next 22 years. In the second place, under the projected treaty, there would be a period of orderly transition during which power gradually accumulates in the Panamanian government. I would like to, if I may, supplement my answer to your question by reasserting that there *is* an importance to the canal, but that its importance is precisely *protected* by that treaty. And let me ask Admiral Zumwalt to give the military reasons why this is so.
> **ZUMWALT:** The situation, in thumbnail, is the following. The United States has surrendered strategic nuclear superiority to the Soviet Union. This means that *conventional* military war is likelier. It means that, as both you and Governor Reagan have said, the need for the Panama Canal is *vital*. We *must* be able to deploy ships from one ocean to another in choosing which of our allies we will save, because we can't save them all. The best security—the best certainty—the likeliest probability of being able to use that canal is to have a friendly regime in support of the operation rather than a hostile regime.

It was then my turn to cross-examine Reagan. The evening moved briskly along, with our debating partners bringing in a useful variety of perspectives, until Senator Ervin sounded the warning bell as only he could:

> **ERVIN:** The chair is going to have to interrupt. Personally, I wish this debate could go on till the last lingering echo of Gabriel's horn trembled into ultimate silence, but we are prisoners of time, and at this time, the chair is going to call on Governor Ronald Reagan for his rebuttal and going to give the very sad advice that it has to end at strictly 10:44.
> **REAGAN:** I claim that the United States, with a military force trained on the ground, which has defended the canal against any attempt at sabotage through four wars, recognizing the fact that it's going to take more than a single saboteur slipping in in the night with a hand grenade or an explosive charge—it's going to take a trained demolition team, with plenty of time to work and no interruption, to do something to disable the gates, the locks, and so forth. Now, I submit that with an American armed force on hand guarding those vulnerable points, they are far safer than if the Panamanians are in charge and the Americans are not there.
>
> Now, we have to face the Panamanians in a negotiation, *not* because we've been threatened that they're going to cause trouble—I say that this is one of the first things that should have called off the negotiations. When they threatened violence, I believe the United States should have said to them, "We don't negotiate with anyone under threats. If you want to sit down and talk in a spirit of goodwill, we'll do it." [*Applause.*]
>
> I don't believe that in Latin America we would do anything to strengthen our position by, again, yielding to the unpleasantness in this treaty. I think, if anything, we would become a laughingstock by surrendering to unreasonable demands, and by doing so, I think we cloak weakness in the suit of virtue. This has to be treated in the whole area of the international situation. The Panama Canal is just one facet of our foreign policy, and with this treaty, what do we do to ourselves in the eyes of the world, and to our allies? Will they, as Mr. Buckley says, see that as the magnanimous gesture of a great and powerful nation? I don't think so, not in view of an administration that is hinting that we're going to throw aside an ally named Taiwan. I think that the world would see it as, once again, Uncle Sam putting his tail between his legs and creeping away rather than face trouble. [*Applause.*]

Then it was my turn to sum up:

> **BUCKLEY:** Governor Reagan says we don't negotiate under threats, and everybody here bursts out in applause. The trouble with *that* is that it's not true. We *do* negotiate under threats. Ninety-nine percent of all the negotiations that have gone on from the beginning of this world have gone on as a result of threats, as the result of somebody saying, "If you don't give me a raise, I threaten to leave my job." That's a threat, isn't it? What do you call what we did to George III? It was a most convincing threat.
>
> The fact of the matter is that there are people in Panama who don't accept the notion of Governor Reagan about the undisputed, unambiguous sovereignty that the United States exercises over that territory. We do have there the absolute right, which I do not deny and which my colleagues do not deny, to stay there as long as we want. But to say that we have sovereignty, as Governor Reagan has said, is to belie the intention of the people who supervised our diplomacy in the early part of the century, and it is also to urge people to believe that we harbor an appetite for colonialism . . .
>
> I think that Governor Reagan put his finger on it when he

> said the reason this treaty is unpopular is because we're tired of being pushed around. We were pushed out of Vietnam because we didn't have the guts to go in there and do it right, just as Admiral McCain said. [*Applause.*] We're prepared, as it was said, to desert Taiwan because three and a half Harvard professors think that we ought to normalize our relations with Red China. [*Applause.*] We are prepared to allow 16 semi-savage countries to cartelize the oil that is indispensable to the entire industrial might of the West because we don't have a diplomacy that's firm enough to do something about it. And, therefore, how do we get our kicks? How do we get our kicks? By saying no to the people of Panama. [*Laughter and applause.*]
>
> I say: When I am in a mood to say no, representing the United States, I want to be looking the Soviet Union in the face and say no to the Soviet Union, next time it wants to send its tanks running over students who want a little freedom in Czechoslovakia. I want to say no to China when it subsidizes genocide in Cambodia on a scale that has not been known in this century, rather than simply forget that it exists. I don't want to feel that the United States has to affirm its independence by throwing away its powers—by saying we must not distinguish between the intrinsic merits of rewriting the treaty in Panama and pulling out of Taiwan because it is all a part of the same syndrome.
>
> Let's listen to reason. Let's recognize, as Admiral Zumwalt has so effectively said, that we are so impoverished militarily as a result of so many lamentable decisions that we need the Panama Canal, and that we need the Panama Canal with a people who are residents of Panama, who understand themselves as joined with us in a common enterprise, because when they look at the leaders of the United States they can recognize that, not as a result of our attempt to curry favor with anybody, but as a result of our concern for our own self-esteem, we were big enough to grant little people what we ourselves fought for two hundred years ago. [*Applause.*]

A few months after the debate I was headed for the Reagans' house in Pacific Palisades for dinner. "Drive carefully as you approach the house," Reagan had warned me over the telephone. "I have special instructions for you on my driveway." I did as I was told. At intervals of 20 yards there were cardboard strips hand-painted with huge block letters. They read, in sequence:

WE BUILT IT.
WE PAID FOR IT.
IT'S OURS!

Well, the Senate *did* ratify the treaty, and the Panama Canal proceeded to operate just as smoothly as it always had. In other words, Ronald Reagan was, as a prophet, simply mistaken. And I, for my part, did not go on to be president. **NR**

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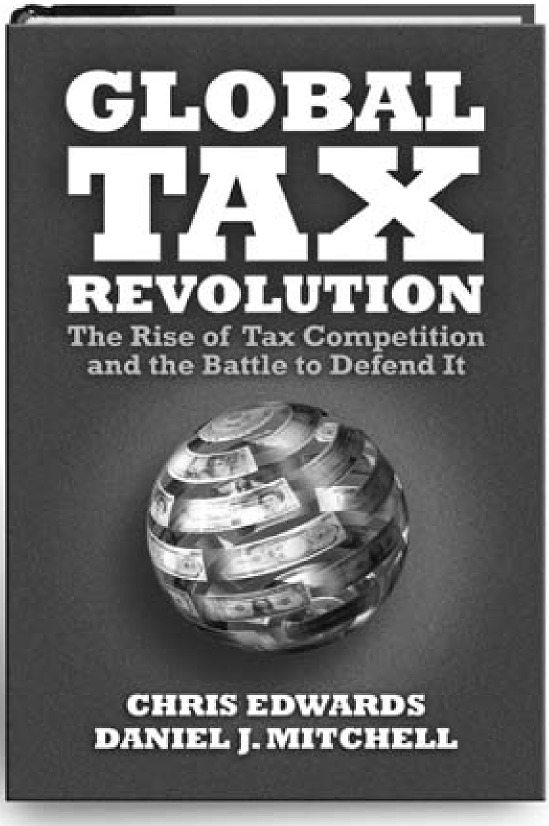

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the **bent** pin

FLORENCE KING

Dismal Etymology

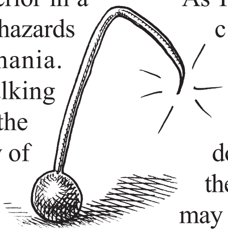
THE most interesting aspect of the recent Wall Street coverage is the spectacle of our talking heads' not only letting a banished word get by, but actually reviving it. "Depression" is back in all its upper-case glory, wearing its de rigueur initial cap to differentiate it from mere sadness.

Ironically, it began as a euphemism for "Panic," an earlier word for economic collapse, as in "the Panic of 1893." After the stock-market crash of 1929, the Hoover administration, fearing a revolution, sought to calm the public by substituting the sleepy-sounding "Depression" for the wide-awake-sounding "Panic." It may have helped at the time, but later on, when people looked back on the '30s, "Depression" caused panic.

Thereafter it was scrupulously avoided, replaced by "Recession," which didn't sound too sleepy because it had to do with walking, yet didn't sound too wide awake because it had to do with stately walking. You walked in during a processional and out during a recessional, so a "Recession" was a perfunctorily planned temporary absence—what economists meant by "The market is correcting itself," or what stage managers in movies about the Ziegfeld Follies meant by "Take five, girls."

Whenever Wall Street stumbled, the airwaves filled with references to "Recession." This lasted until the baby-talk era, when it was changed to "the R-word," but no matter how bad things looked, e.g., 1987, nobody dared say "Depression" or make the slightest reference to it, which is why we have never had a "D-word."

Then the tiptoeing stopped. Starting earlier this year at the peak of the mortgage crisis and mounting steadily through a summer of bankruptcies and a September of three-digit losses in the Dow, "Depression" became the designated driver of every talk show. Suddenly we were seeing "the worst Depression since 1929 . . . worse than the Depression of 1929 . . . another Thirties-style Great Depression . . . it's 1932 all over again . . ." The years 1929 and 1932 were repeatedly invoked, occasionally accompanied by old news footage of bread lines, soup kitchens, and the sunken cheeks of Appalachian children paired with the incredibly round ones of moon-faced Herbert Hoover. After one such retrospective, a frenzied seer warned, "We're headed for the worst Depression in the history of the world!"



What is behind this sudden change in vocabulary? The simplest answer is that we really are on the ropes but what is not so simple is why the media are being so honest about it. It's just not like them to do anything without an ulterior motive, and motives can get pretty ulterior in a field whose twin occupational hazards are schadenfreude and egomania. I can think of a couple of talking heads who would welcome "the worst Depression in the history of the world" as long as they could cover it with the sweet delirium that comes over them when, like Narcissus gazing into his pool, they look into the camera with the red light.

The far-Left heads are the easiest to figure out. They're trying to scare us into electing Obama with audience-training techniques culled from Pavlov. Choose a key word and keep saying it over and over, keep the fear of hunger in the forefront, and make sure we can sniff out the Bad from the Good: Depressions are caused by Bad Republicans, Depressions are cured by Good Democrats; Bad Hoover had a round face, Good Obama has a narrow face, etc.

Once they get Obama in the catbird seat, the revolution they yearn for will come to pass. Not the pike-and-guillotine kind, but a civilized, educated, advanced socialism that will make the world trust America and make America trust itself. Roosevelt's New Deal experimented with socialism, but Obama's New Heal will finish the job and transform us into a post-nationalistic, post-ethnic, guiltless garden of egalitarian delights with two government programs in every pot.

I thought I had solved the mystery of the run on "Depression," but then came Bailout Week. Congressmen and senators, Republican, Democrat, right-wing, left-wing, and mister-in-between all clamored to accentuate the negative and eliminate the positive. Ben Bernanke spoke of "financial devastation"; others recited a thesaurus of downbeat synonyms: "scary . . . dire . . . brink . . . collapse . . . chaos . . . disaster," until finally we got Bush himself in his emergency speech, listing all the elements of a bona fide Depression, including "financial panic," then warning that we just might have a "RECESSION"! I wish I had been a fly on the wall during that speechwriters' meeting. When only the president is required to call it a "Recession," you know we must be up that infamous creek without a paddle.

As I write this, the going theme on cable news is "How Scared Should Americans Be?" This is the Bailout Gang's way of saying that they themselves don't understand the crisis, so we the public must be even dumber. I may not know what derivatives and commercial paper are, but I know the root cause of the present debacle.

It's the D-word: "Democracy."

Comparing contemporary America with the America that lived through the Depression of 1929 will not generate the Happy Talk we now demand. The 1920s have been thoroughly misunderstood. Despite the "roaring" and bootlegging it was a disciplined society in which the middle class really was a middle class, composed of professionals and businessmen, not the jumped-up helots who are called—and call themselves—middle-class today. The 1920s did not have 30-year mortgages. The real middle class bought homes on seven-year mortages, with a final balloon payment. The helot class rented, and if they ever said, "I got a right to the American Dream and I want it now," they were ignored because nobody cared whom they wanted to have a beer with. **NR**

Florence King can be reached at P.O. Box 7113, Fredericksburg, VA 22404.

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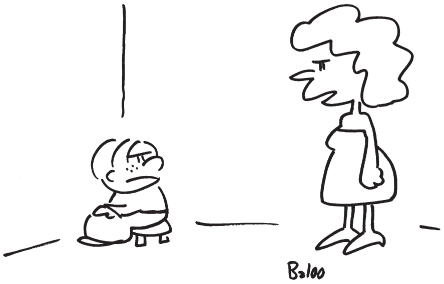

"This is nothing like Abu Ghraib!"

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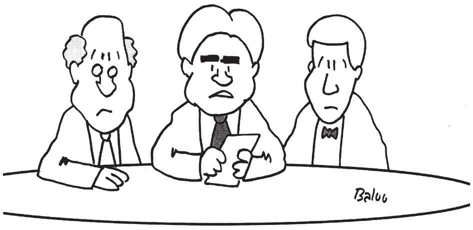

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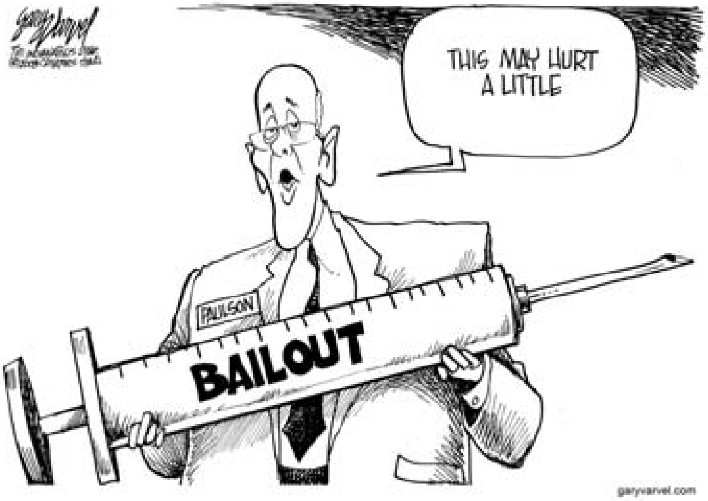
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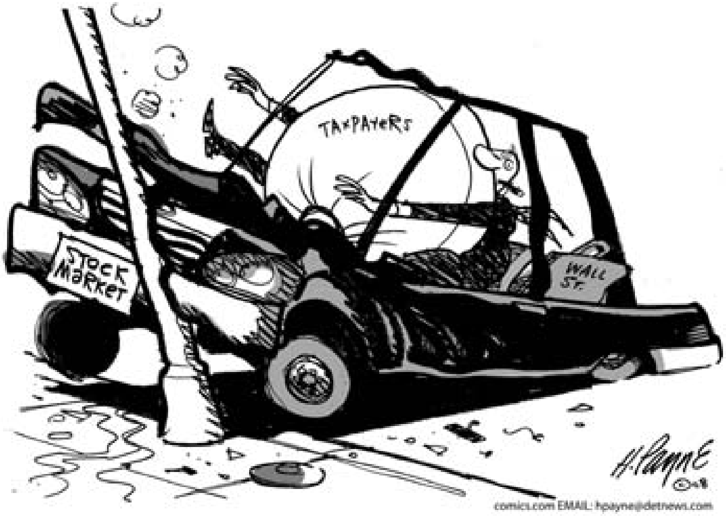
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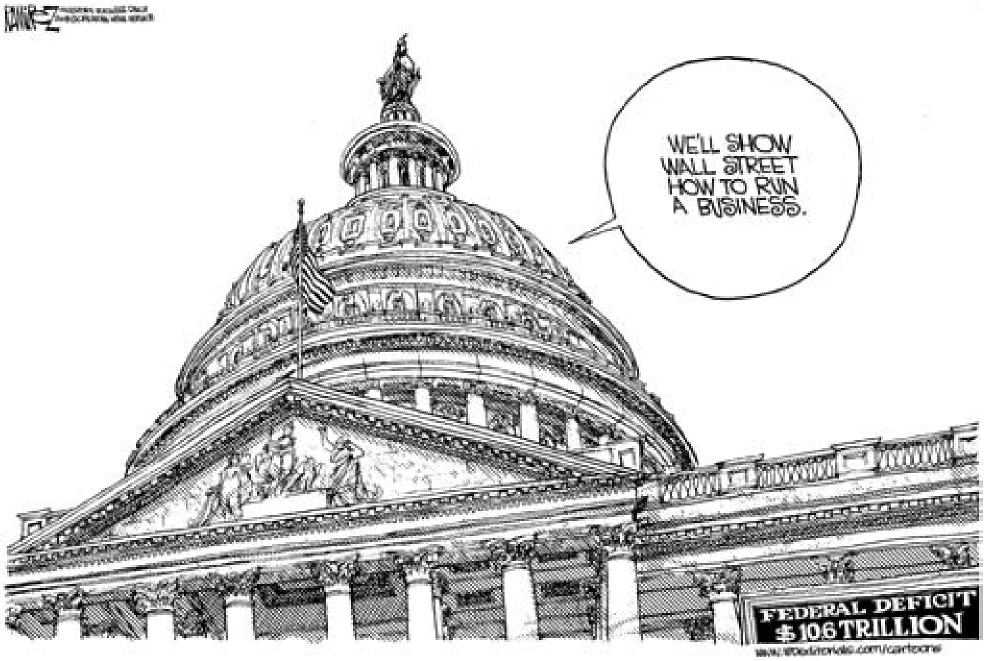
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the long view

ROB LONG

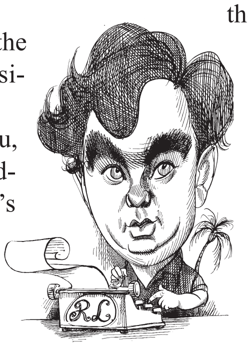
Transcript: *Hardball* on MSNBC, with hosts Keith Olbermann and Chris Matthews.

Airdate: Sept. 30, 2009

Main Titles.

SFX theme: “He Lifts Us
All Up to Face the
Glorious Future”

CHRIS MATTHEWS: Welcome, everyone, to today’s edition of *Hardball*. My co-host as always is the dedicated and loyal party leader Keith Olbermann. Keith, good evening!



KEITH OLBERMANN: Smash the reactionary forces of opposition!

CHRIS MATTHEWS: Thank you, Keith, for that inspiring reading of Our Wonderful One’s message of the day. Truly, we are blessed to have such a far-seeing Leader. But let’s get started. Today, House Republicans again voted against one of His progressive plans to lead us all into a more glorious future. All six House Republicans and the one sole Senate Republican, Joe Lieberman of Connecticut, voted against—against! can you believe it?—the Magnificence of His Budget Outline for 2010. Incredible, huh?

KEITH OLBERMANN: Smash the reactionary forces of opposition!

CHRIS MATTHEWS: Thanks, Keith. Great comment. I agree with you, by the way. With us now is Sally Quinn, political columnist for *Newsweek* and the *Washington Post*. Sally, what do you make of this extraordinary act of treachery and disloyalty to a man who is delivering unto us a bright and glorious future?

SALLY QUINN: Well, Chris, as you know, I was an early leader in the struggle against those who struggle against His Grace, and so I frankly am not surprised by this kind of rearguard backsliding by some who would prefer to be lickspittles of the far Right. Honestly, though, what I really am is sad—I’m sad that the seven remaining Republicans in the federal government are refusing to . . . to . . .

CHRIS MATTHEWS: Drink the Kool-Aid?

SALLY QUINN: I wouldn’t use those terms.

CHRIS MATTHEWS: No! No, no, of course not. I didn’t mean that in the way that I think you may have understood me. I don’t mean drink the Kool-Aid like it’s a bad kind of Kool-Aid. I mean, drink it because it’s cool and sweet, and the weather these days is so hot and dry, and your throat is scratchy and parched, and a sweet, sweet, cool, wet sip of Kool-Aid would really hit the spot. Drink it because it’s good, you know? Good for you. You’ll take a long sip, feel drowsy, maybe take a restful nap, and wake up reborn in a world with no fear, no pain, no loneliness. Just the oneness of His Powerful Movement for Change. Wouldn’t that be nice? Why do the Republicans resist this?

KEITH OLBERMANN: Smash the reactionary forces of opposition!

CHRIS MATTHEWS: Thanks again, Keith. Anyway, Sally Quinn, great to see you as always. Long live our Wonderful Guide and Helmsman!

SALLY QUINN: Long live our Wonderful Guide and Helmsman, Chris.

CHRIS MATTHEWS: Our next guest is *Time* magazine’s Joe Klein, who has written a powerfully critical and slashing piece in the recent issue, going for the jugular against the Dear President in a way that, frankly, I felt was over the line. Joe, why do you hate a man who has brought us so much?

JOE KLEIN: Well, Chris, let me first take issue with your characterization of my piece. It wasn’t really all that tough—

CHRIS MATTHEWS: It wasn’t? How do you figure that?

JOE KLEIN: Well, the piece was headlined “Is Barack Obama Too Wonderful to be President?” and in it I suggest that—

CHRIS MATTHEWS: You don’t think that’s insulting? Is he too wonderful? When you know in your heart that he’s just wonderful enough?

JOE KLEIN: If you’ll let me finish, Chris, what I was going to say was that this wasn’t a criticism of Obama—

CHRIS MATTHEWS: Obama? You can’t even bring yourself to call the man by his legal title?

JOE KLEIN: I’m sorry—Father, President, Teacher, Healer, Man of Unity, Leader of All True Americans Barack Obama—anyway, the piece wasn’t a criticism of Him per se, but of the office of the presidency.

CHRIS MATTHEWS: What’s the difference?

JOE KLEIN: Well, I mean, the office is designed to have limited powers.

CHRIS MATTHEWS: For now, yes.

JOE KLEIN: And that’s all I was saying.

CHRIS MATTHEWS: Don’t you love our Guide and FatherMother?

JOE KLEIN: Of course, Chris. Don’t question my devotion, okay? I mean, I’m here on MSNBC, right?

CHRIS MATTHEWS: Then say it. Say it. Go ahead and say you love Him.

JOE KLEIN: I will not be bullied, Chris.

CHRIS MATTHEWS: Well, Joe, as much as I love you and respect your fantastic career as a writer and thinker, I’m afraid you leave me no choice but to denounce you.

JOE KLEIN: Chris, with respect: Get some help.

CHRIS MATTHEWS: Keith?

KEITH OLBERMANN: Smash the reactionary forces of opposition!

CHRIS MATTHEWS: Thanks. That’s all we have time for tonight. Good night, everybody. And long live our Wonderful Guide and Helmsman! Take us out, Keith!

KEITH OLBERMANN: Smash the reactionary forces of opposition!

WIN MCNAMEE/GETTY

Special Rules for Special Needs

Could learning-disabled kids lead the way to market-based education reform?

JOHN J. MILLER

ALTHOUGH Sarah Palin's GOP-convention address was full of partisan zingers, one of its most memorable passages was anything but pit-bullish. It touched gently on her infant boy's Down syndrome: "To the families of special-needs children all across the country, I have a message: For years, you sought to make America a more welcoming place for your sons and daughters. I pledge to you that if we are elected, you will have a friend and advocate in the White House."

Palin didn't elaborate. It wasn't necessary: The words humanized her before an audience that was hearing her voice for the first time. Yet her promise to promote the interests of special-needs children holds the potential to do more than target sympathy voters. It puts her in position to become the patron mother of one of the most hopeful developments in conservative education reform: the marriage of special education and school choice.

If this emerging movement has a patron father, he's John McKay, a now-retired Florida legislator whose daughter was diagnosed with learning disabilities. "I tried public schools, private schools, tutoring—everything I could think of," he says. Ultimately, he sent her to an expensive boarding school about a hundred miles away. He recalls: "I started to think that if parents banded together, we could hire a teacher and keep our kids at home."

In the mid-1990s McKay, a Republican state senator, approached Gov. Lawton Chiles, a Democrat, with the idea of creating state-funded scholarships for special-needs children—i.e., school vouchers for the learning-disabled. Chiles said he was opposed to school choice but didn't immediately dismiss McKay's suggestion. Still, it took the election of Jeb Bush as governor in 1998 to make it a reality. "He asked me to sponsor his education bill and I agreed on the condition that we start a pilot program for special-needs kids in Sarasota County," says McKay.

The pilot program was established in 1999. It quickly grew into an official policy for the whole state. Today, every special-needs child in Florida is eligible for a McKay Scholarship. The value varies depending on circumstances, but averages more than $7,000. Parents can use it at either public or private schools. Last year, almost 20,000 students used McKay Scholarships, and their numbers are bound to rise.

This success stands in sharp contrast to other school-choice initiatives. So far, efforts to pass universal voucher programs have been defeated or struck down in every state where they've been tried, due in large measure to the fierce hostility of well-heeled teachers' unions. Last year, voters in right-of-center Utah overwhelmingly rejected a measure passed by the legislature to create what would have been the country's most ambitious school-choice plan.

Conservatives have long appreciated the political challenge of school choice, which is one of the reasons they've touted small-bore voucher programs that concentrate on low-income children in cities such as Milwaukee and Cleveland. This focus made sense from a policy standpoint because poor kids suffer most at the hands of failing public schools. Even so, these well-intentioned efforts haven't exactly sparked a revolution in urban education. Rather than enjoying a growth spurt, they're on the brink of a painful reversal: Congressional Democrats are poised to wipe out a federally funded school-choice program in Washington, D.C. (though scholarship schemes funded through tax credits, as Robert VerBruggen writes elsewhere in this issue, are flourishing).

Yet mental disabilities strike across class lines and can affect any family, including that of a presidential running mate.

Several years ago, Ohio state representative Jon Peterson became involved in the issue for the same reason as John McKay: He has a special-needs daughter. In his case, the girl is autistic. “It put me in touch with a community of people who saw that many public schools weren’t doing as well as they could,” he says. “When I read about the McKay Scholarships in Florida, the answer just jumped off the page.”

Ohio went on to let parents of autistic children use state funds to pay for private-school tuition. Last year, Peterson, a Republican, tried to expand the program to include all special-needs kids. The legislature approved the bill, but Gov. Ted Strickland blocked it with his line-item veto. “We’ll be back,” says Peterson. “Free choice of provider is a core principle of the disability-rights movement, and it should include education.”

What the school-choice movement sees as a major opportunity, the unions see as a serious threat.

This simple standard has helped win over skeptics. “A lot of teachers weren’t too happy with McKay Scholarships when they were introduced,” says Lynette Estrada, a special-needs teacher in Miami. “We were frightened of them.” Then her autistic son had a rotten experience at the public school where Estrada works: “It wasn’t meeting his needs, the students bullied him, the classes were too large—there were a lot of problems.” So she looked into a McKay Scholarship, got one, and sent her son to a private school. “He’s doing well there,” says Estrada. “It goes to show that one-size-fits-all isn’t the best approach.”

Research suggests that Estrada’s satisfaction with the McKay Scholarship is typical. “That’s what market accountability delivers,” says Jay P. Greene of the University of Arkansas, who has studied McKay Scholarships more closely than anybody else. He says that McKay parents are far more likely to report that they’re receiving the services promised for their children. “They’re happier, their kids are abused less, and the class sizes are smaller,” adds Greene.

A common argument against school choice is that private competitors could skim the public schools’ best students and leave behind the hard cases. In April, Greene and co-author Marcus Winters of the Manhattan Institute demonstrated that McKay Scholarships actually have had the opposite effect. As private-school options became available, students who qualified for vouchers but remained in public schools saw their test scores improve, presumably because increased competition led to better performance, better use of public-school resources, or both. “Having zero effect on public schools would be a positive outcome,” says Winters. “This is even better.” In recent years, the number of special-needs schoolchildren in America has risen to 7 million—about 14 percent of the total, up from 8 percent in 1977, according to the U.S. Department of Education. Some of the growth has come from better identification, and the stigma of disability also has faded: Kids are no longer labeled “retarded,” but rather described as having “special needs.” Money may have fueled most of the expansion, however, because schools often receive extra cash for learning-disabled students, so they have a financial incentive to classify children that way. Sometimes kids whose only handicap is having fallen behind in their academic performance are slotted into special-needs classrooms.

Whatever the causes of the increase, school choice offers an attractive strategy for addressing it. The McKay Scholarships deliver a savings to taxpayers because in many cases the vouchers are worth less than what the public schools would spend on the kids.

The Alliance for School Choice says that legislators in 22 states have offered school-choice bills for special-needs kids. In addition to Florida and Ohio, three states have enacted laws. Arizona and Utah have programs with tight budgetary caps, but last year Georgia passed a law without financial restrictions. This means that the Peach State probably will see the same explosive growth in special-ed vouchers as the Sunshine State. Entrepreneurs are already moving in. Center Academy, a for-profit company that runs schools for disabled students in Florida, just opened its first in Georgia. “We hope to have four or five more,” says vice president Steve Hicks. Others are sure to join them.

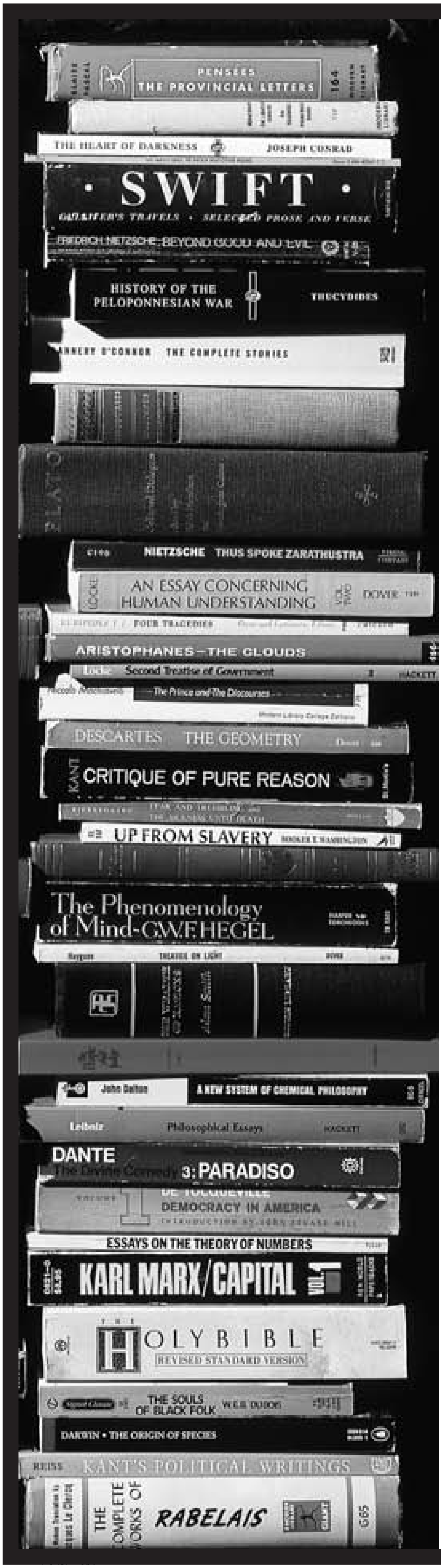
Whereas close personal encounters with disability motivated school-choice laws in Florida and Ohio, this wasn’t the case in Georgia. “I’ve always seen school choice as a solution for our education woes,” says David Casas, a Republican state representative who is also a high-school teacher. “But the debate on school choice is always so negative because the attacks by teacher unions have been effective. We had to look for different angles.”

For Casas and others, concentrating on special-needs students was an incremental step on the way to a larger goal. “We got support for this that we probably wouldn’t get for a broader form of school choice,” says Eric Johnson, a Republican state senator. The liberal editorial page of the *Atlanta Journal-Constitution*, for instance, endorsed the legislation. The success of that effort served as a springboard for another accomplishment. Earlier this year, Johnson and Casas pushed through a tax credit, worth up to $50 million, for individual and business donations to non-profit groups that fund tuition scholarships. Next year, they may go for it all and propose a universal voucher plan.

They’ll face tough opposition. So will imitators who want to create special-needs scholarships in other states. Until now, the teachers’ unions haven’t put up much of a fight against school choice for learning-disabled students. Who wants to go head to head with families that so obviously deserve compassion? At this point, however, what the school-choice movement sees as a major opportunity, the unions regard as a serious threat.

With the right kind of leadership, the battle could move to Washington. The federal government currently spends about $11 billion on special-needs students. “Someone should propose voucherizing these funds,” says Scott Jensen, a consultant with the Alliance for School Choice.

It sounds like a cause that a special-needs advocate in the White House might wish to adopt—and a political fight that a pit bull would savor. **NR**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Debt or Equity?

Options for funding higher education

KEVIN D. WILLIAMSON

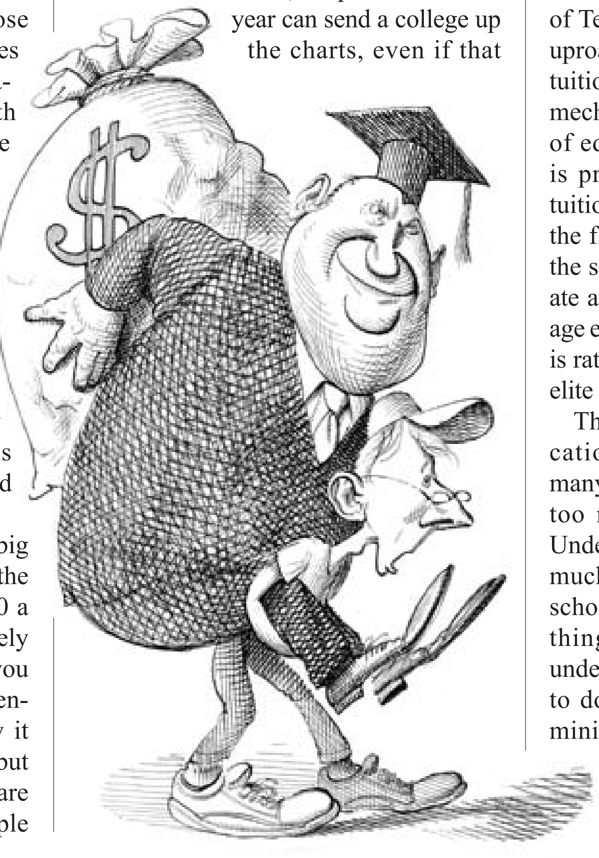
Why does college cost so much? And where can I get some money to help pay for it? Those two questions turn out to be intimately and perversely related.

College is expensive because we are willing to pay for it. This is true for first-generation college students struggling through state universities and for status-obsessed children of Upper Suburbia burdening themselves and their families with serious debt as they press onward and upward through Princeton (school motto: "You would not believe how much this costs!") or Haverford (school motto: "No, not *Harvard*—Haverford!").

College education is one of those touchy products whose price increases far faster than the rate of general inflation. Another such product is health care. And that's no surprise, because education and health care have something in common: Consumers don't usually pay for them directly. In economics this is called a third-party-payer problem. When a health-care consumer considers a procedure, he doesn't ask: How much does it cost? He asks: Does my insurance cover this? Likewise, a would-be Ivy Leaguer doesn't ask, "Can I afford this tuition?" but "Can I get financial aid for this?"

But in higher education there's a big difference between the price tag and the price. Big Ivy may be asking $50,000 a year, but that rate is paid by a relatively small number of chumps. (What did you think legacy admissions were for, genetic continuity?) You wouldn't know it from reading the course catalogues, but the people who run these universities are not fools. They know that most people can't lay down a quarter-million dollars over the course of four years. But they also know that Uncle Sam, who has a soft spot for college students and a terrible fear of their taxpaying parents, is in the loan business. The government hasn't acquitted itself all that brilliantly in its involvement in other kinds of loan operations (Fannie? Freddie? Who?), but the college-loan racket is hugely popular, as free money usually is. "It's not free money!" students will protest. "We have to pay it back!" That is true. But the interest on these loans is heavily subsidized, both during studies and after graduation. Recent graduates who doubt that should see if they can finance a $50,000 car at the same interest rate, on the same terms, as they financed $50,000 worth of learning.

College administrators know that they can ask much more than people are willing or able to pay because Uncle Sam will step in and bridge the difference between what families have and what colleges are asking. They also know that many of the popular magazine rankings are based on educational inputs, not educational outputs, so spending an extra $1,000 per student each year can send a college up the charts, even if that money is heaped up on the quad and set on fire—or put into undergraduate diversity seminars, which amounts to the same thing.



ROMAN GENN

Contrary to Michelle Obama, who talks as though it had been some kind of hardship to repay money that people lent her to better her life, a subsidized loan is a gift—free money. Considering the payoffs of a college education, this is a wonderful gift indeed. Even if it comes from Humble U, a college degree (as distinct from a college *education*) is a magical door-opener; there are many jobs and benefits in this world that are for most purposes off-limits to those without a bachelor's degree. As there are basically no substitute goods in this market, it's no surprise that demand for education is relatively inelastic.

But the more money that is available for financial-aid grants and loans, the more colleges will charge. In this sense, financial aid isn't really aid to students but aid to university administrators, who are ingenious in devising new ways to increase their burn rates. Some of the better public universities don't even need tuition revenue at all. Hans Mark, when he was the chancellor of the University of Texas system in the 1990s, caused an uproar by letting it slip that Texas uses tuition mostly as an enrollment-control mechanism. As a percentage of the cost of educating an undergraduate, tuition is pretty small beer. But by charging tuition, and by charging higher tuition at the flagship schools and lower tuition at the satellite campuses, state schools create a modest market mechanism to manage enrollment. The alternative, of course, is rationing, which is essentially what the elite private schools do.

The economics of undergraduate education are not going to change. Too many politically powerful interests have too much at stake in the status quo. Undergraduates are revenue sources, and much of the money that they bring to school with them gets siphoned off for things that have nothing to do with undergraduate education but everything to do with the interests of college administrators and faculty: funding new programs and, more important, underwriting the costs of career-making research for faculty who may never teach an undergraduate class. Whether the money is coming from tuition, financial aid, or direct government support of universities, undergraduates are cash cows—but there may be a better way to milk them.

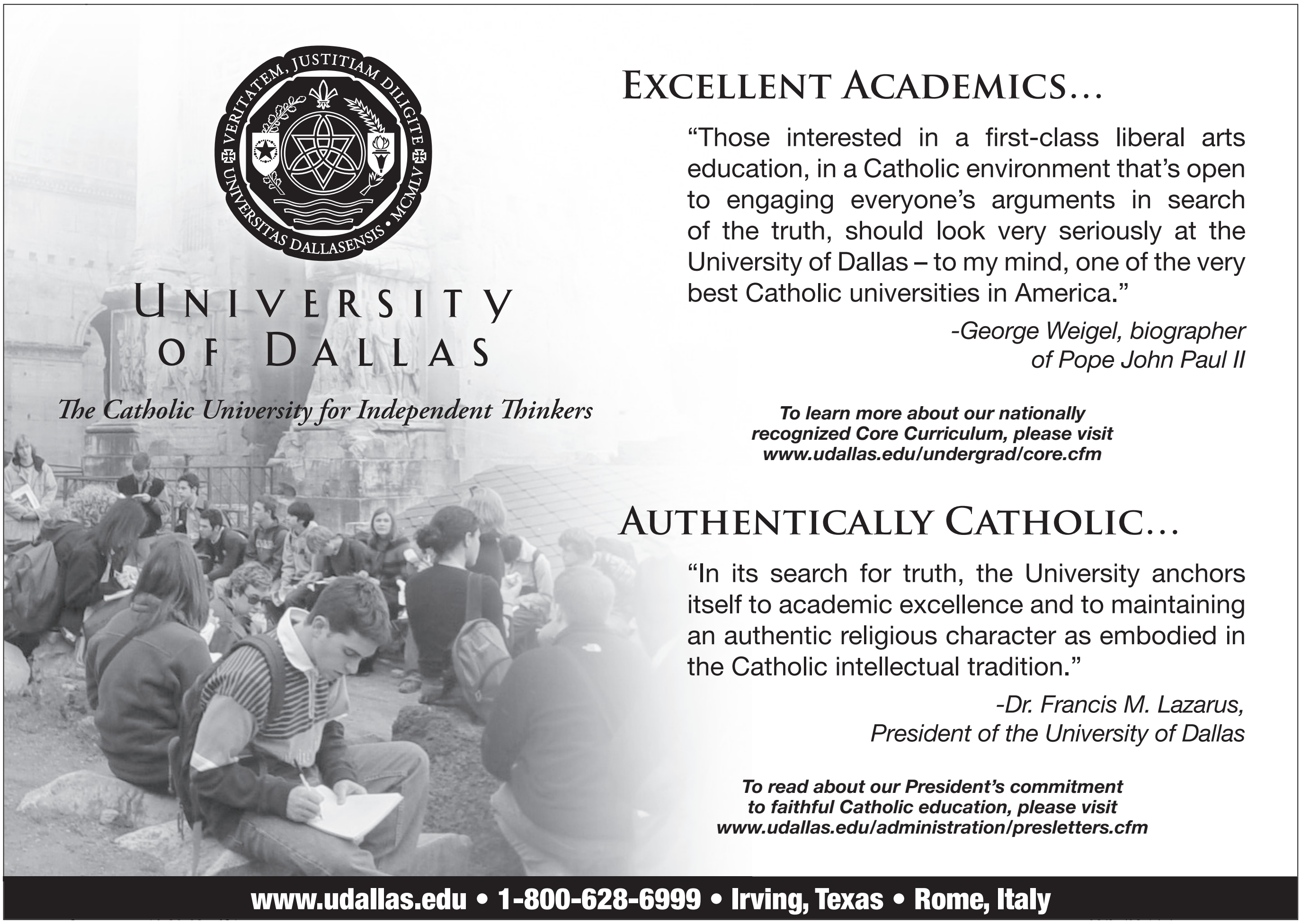
In life, as on Wall Street, there are different ways to finance an endeavor. One is to leverage one's assets—which is to say, debt. The other option is equity. You can buy an interest in a company. Why not buy an interest in somebody's career?

There is some precedent for this in the securitization of intellectual capital, what are known as "Pullman bonds," after financier David Pullman, who engineered the sale of bonds based on the royalty earnings of singer David Bowie. The "Bowie bonds," purchased by Prudential, allowed the singer to raise $55 million for future endeavors in exchange for giving up ten years' worth of royalties. A similar model for financial aid would allow students to enter into contracts in which they swap the cost of college for a fixed percentage of their income for a period of time. A student might get the equivalent of a free ride at Yale in exchange for 2 percent of his income for the next 30 years. He might end up paying more than if he had simply borrowed the money—especially if he becomes a hedge-fund manager or a class-action lawyer—but he'd be spared the burden of debt and the risks associated with borrowing. And if he decides to become an inner-city schoolteacher instead of a Wall Street tycoon, he's not going to have crushing loan payments hanging over his head.

MyRichUncle is an education-finance company that originally offered an equity model. Their operations, based in the World Trade Center, were disrupted by 9/11, and like many other innovative start-ups they found it difficult to raise capital as they rebuilt. Still, the firm managed to write nearly $1 million in equity-style products, which they call "education investments." Raza Khan, co-founder of the company, believes in the equity model and hopes to begin offering income-based financing again when capital becomes available.

"We were surprised not only by how much demand we saw, but at the quality of the demand," Khan says. "We had people going to great institutions, with strong income prospects. The attraction is in the flexibility—when your payment is a small percentage of your income, your payment is always affordable." Conversely, student loans can be oppressive in the first years after graduation, when students are generally earning the lowest incomes of their careers.

These equity-like arrangements are known as "human-capital contracts," and their benefits aren't limited to helping young people avoid graduating with enormous debts. The investors who are



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paying the college costs up front on these deals, whether they are profit-driven enterprises or charities, would have a real economic incentive to help keep the costs of undergraduate education down. This would have beneficial effects on the overall education market, creating incentives for efficiency.

Yale experimented with a similar system in the 1970s. The Tuition Postponement Option was built on a good model but, in a collectivist blunder that could be committed only by college administrators, it bundled the students into "cohorts" who were jointly responsible for any defaults among their classmates. Conscientious graduates found themselves making payments far longer than expected in order to make good on the abandoned obligations of Ivy League bums and dropouts. One hybrid option would be to allow students to forgo a percentage of their future earnings in exchange for funding, with repayment capped at, say, 150 percent of the aid received. This would probably be structured as an income-contingent loan.

Ideally, these programs would be offered by the colleges themselves rather than through the government—tuition would simply be forgone in exchange for future payments. It is imaginable that some graduates would opt to continue giving 1 or 2 percent of their income to their alma maters even after their obligations were paid off, especially if those payments were made tax-deductible. Universities sustained in large part by a body of graduates would have incentives to rein in the worst sort of shenanigans that currently deface campus life, and the arrangement would encourage a sense of community and joint ownership, rather than a sense of entitlement.

We fund education because we believe that it brings social benefits. Education does benefit society, but not nearly so much as it benefits its recipient—and that's who should pay for it. Restructuring the way we finance higher education would empower students and their families to make smarter choices about college and would ameliorate the perverse incentives that deform the education market, inflating tuition bills and saddling graduates with heavy debts. You don't need a Ph.D. to see that's smart. **NR**

Pro-Choice

Democrats—some of them—are learning to love vouchers

ROBERT VERBRUGGEN

'VOUCHERS were thought of as a white, Republican type of issue," says Louisiana state representative Austin Badon Jr., a Democratic member of the legislature's black caucus.

Indeed, in the half century since Milton Friedman started pushing vouchers—the idea of giving parents, especially those with children in underperforming public schools, money to spend on private education—they've been mostly a project of conservatives and libertarians, two relatively Caucasian groups. To make matters worse, teachers' unions, which hold a lot of sway in the Democratic party, hate the idea of the government's helping their private competitors.

Even though poor children, the folks Democrats purport to care about most, are the ones typically stuck in failing public schools, only Republicans have been willing to do anything to get them out. That is, until recently: In the last several years, there has been a remarkable rise in Democratic support for vouchers. Democrats have played an important role in more than half of recent school-choice successes. This is an important step forward for the school-choice movement.

Examples abound. Badon introduced a bill—another Democrat subsequently introduced it in the state senate, and the Republican governor signed it—to authorize up to 1,500 "scholarships" for students in Orleans Parish. Children in grades kindergarten through three can enter the program, and Badon hopes to add more grades with subsequent legislation.

Democrats have also supported school-choice initiatives in Maryland, New Jersey, and Iowa. Arizona's Democratic governor signed two voucher bills, albeit as part of a budget-deal concession. Some Democrats in the federal Congress support continuing the D.C. Opportunity Scholarship Program, and Democratic city officials there have earned a reputation for reform-mindedness.

Perhaps most illustrative of the changing mood is Florida, whose 2001 school-choice program passed with but a single Democratic vote. This year, one-third of Democrats voted to expand that same program. About half the black caucus and the entire Hispanic caucus were on board, and the program's cap rose to $118 million.

Democratic representative Bill Heller—who as a public-school teacher worked with disabled students—joined the Florida legislature after the 2001 vote, but voted against expanding the program last year, and also in a committee called the Schools & Learning Council. He voted for the final bill this year. "I wanted to go out and see what was happening to the kids on these scholarships. My district had 58, and I visited several of their schools and talked to parents," he says. "I saw that it was an alternative for a child who might not have been successful in a public school—not a means of operating a separate system of education."

Why is this happening, and why now? There are several important reasons. One is that politicians representing poor districts face increasing "pressure from the bottom," says Joe Williams, executive director of Democrats for Education Reform (which takes no position on private-school vouchers). "Parents are looking for results and answers, and it's getting harder for elected officials to sit back and not offer any," he adds.

Also, since the Milwaukee voucher program passed in 1990, various rebellious Democrats have stuck their necks out for school choice. Seeing these heads stay attached to their torsos, other legislators have been more willing to follow suit.

And as Democrats have become more supportive of vouchers, the voucher movement has gone out of its way to make itself more palatable to Democrats. The outreach, especially to minorities representing districts with failing schools, was long overdue: For years, polls have indicated significant, sometimes majority, support for vouchers in the black community.

Bringing in liberals requires framing the issue in terms of social justice, rather than as a way to limit government. This is not just political, but also honest: Research shows significant academic gains when

Standing Athwart History 24/7

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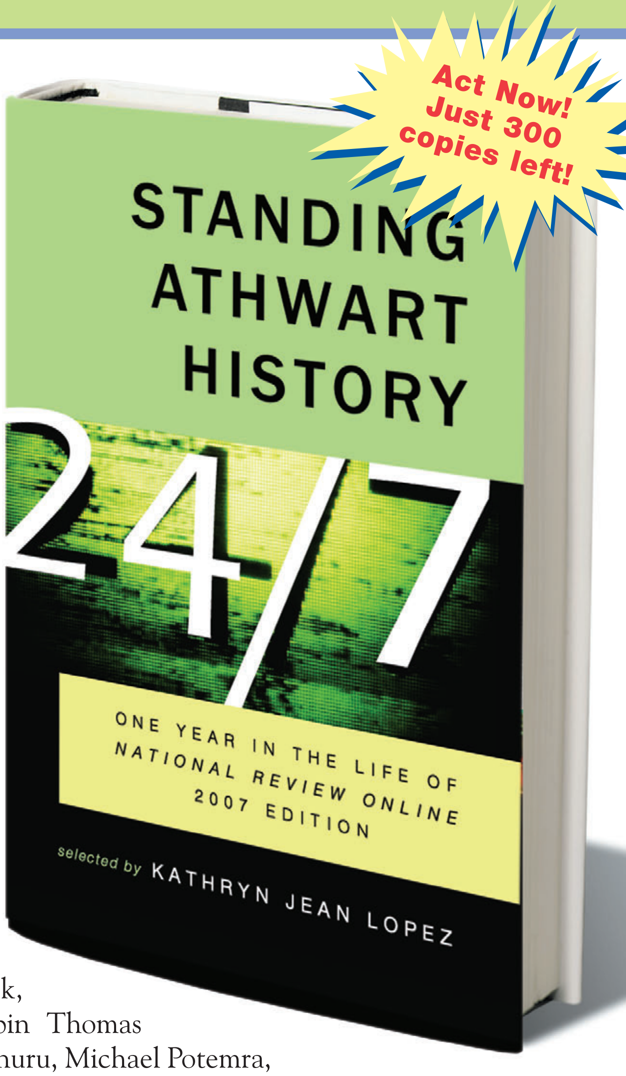

We're happy to announce a new collection from National Review Online editor Kathryn Jean Lopez: *Standing Athwart History 24/7—One Year in the Life of* National Review Online*, 2007*. This handsome, 240-page quality softcover is a wonderful collection of the best articles, editorials, and symposia to appear on *National Review Online* last year. Covering a range of topics—and conveniently segmented into chapters such as At War, Heroes, Partisans, Policy Fights, Immigration, Decline and Fall, Media, People, and Before You Move On—*Standing Athwart History 24/7* bursts with fascinating contributions from a veritable conservative "who's who," including:

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kids leave the very worst public schools (there is much less, if any, advantage in moving a child from an average public school to a private school).

Also, the movement reworked school choice in a way that reduces political risk; many of these Democrat-enabled voucher programs aren't actually voucher programs, but rather "corporate tax-credit scholarship programs."

The difference: In a traditional voucher program, the government gives parents money to spend on private schools. But in the new programs, a corporation ponies up the cash, and gets a tax credit for a large portion of the donation. In Maryland, for example, that portion is 75 percent. Bear in mind that a tax credit is not the same as a tax deduction—if a Maryland corporation donates $1,000, it pays $750 less in taxes, instead of just deducting $750 from its taxable income. So, in effect, the government is paying most of the bill.

There can be an advantage to this method—Maryland forgoes only $750 in tax revenue for every $1,000 spent on school choice, instead of the full $1,000 it would pay in a normal voucher program. But it's clear the more important advantage is political: Florida, for example, offers dollar-for-dollar credits, basically allowing corporations to direct their tax money to vouchers so politicians don't have to.

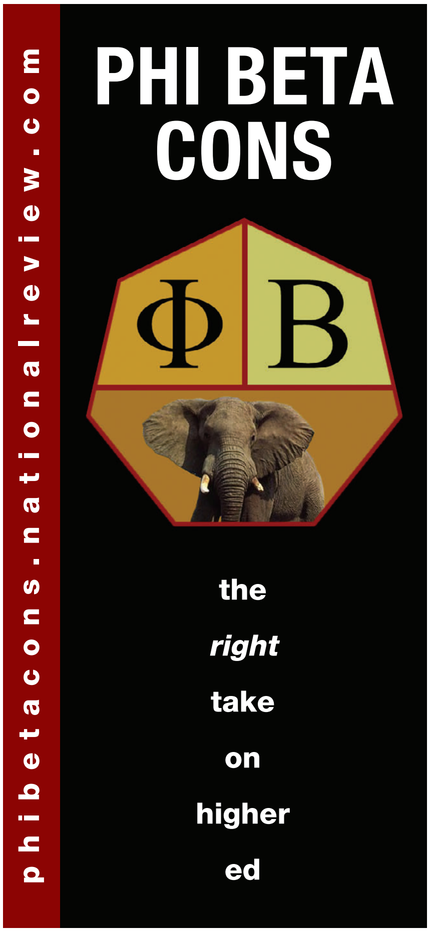
"The trend we're seeing right now is that scholarship tax-credit programs pass statewide," says Andrew Campanella, director of communications and marketing for the Alliance for School Choice. "Otherwise, you can only pass a citywide program, or a limited program like one for special-needs students." By the Cato Institute's count, seven statewide "tax credit" programs have passed since 1995, and all have survived. Only four statewide voucher programs have passed, and three have since ended.

One reason for this: When money comes from a corporation instead of the government, even only nominally, it seems less like public money supporting a private organization. It's also easier to convince voters that the vouchers won't affect the public schools' budgets.

And of course there's the clever vocabulary switch from "voucher" to "scholarship." The notion behind the change is clear enough: "Voucher" is not a marketable word. Many people don't really know what it means, and teachers' unions have worked hard and successfully to equate the term with taking money from public schools.

It seems likely that this trend will continue, as Democrats' reflexive aversion to vouchers continues to subside. But even if the unions have lost some power, they're not going anywhere, and pro-voucher Democrats don't always have an easy time.

"It's been a tough issue for me personally, spiritually, and mentally," says Jason Fields of Milwaukee, a Wisconsin assemblyman who broke with his party in voting to expand his city's voucher program (a Democratic governor signed the bill in a compromise with the Republican-controlled legislature). "When you go against people who don't want change, they feel threatened or challenged by everything you try to do. I always heard, 'You're being misled, you're being fooled,' as if I'm not intelligent enough to make decisions myself." **NR**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When Knowledge Is Critical

Brief reflections on Middle East studies

JAY NORDLINGER

The Cold War stretched from 1945 to 1991, and somehow the West ended up on top: Soviet Communism gave up. Then we had our "holiday from history": ten years of almost no concerns. Sure, there was a Khobar Towers here, a U.S.S. *Cole* there. But Muslim terrorists were always acting up, weren't they? They were something to put up with, like the weather. And then came 9/11, and a new cold war.

During the original cold war, America and the West built up many institutions, aimed at countering Communism, understanding the Eastern bloc, and communicating with people under the lash. Have we done the same in the War on Terror? Not even close, as George Shultz emphasized in an interview with me last January. It is a failing of these recent years—and we should get busy.

Professors of Middle East studies would be very helpful right about now. But they are, unfortunately, among the worst of the lot: among the worst in the American professoriate. A range of departments, of course, is the province of radicals and ideologues, rather than genuine scholars. But departments of Middle East studies may take the cake. If you'd like to read chapter and verse, see Martin Kramer's book *Ivory Towers on Sand*.

In the old days, "Sovietologists" tended to sympathize with the Kremlin (to put it crudely, and perhaps McCarthyitely, but not untruthfully). Middle East studies men are apt to sympathize with the PLO and worse. And the China people, a number of them, are just as frightful.

Recently, I met with Jian-li Yang, the great dissident and scholar. He has one

Ph.D. from Berkeley (in math) and another from Harvard (in political economy). He lives in the Harvard community. I asked whether he ever had contact with Sinologists there. Oh, no, he said: They are impossible, because they simply toe the PRC line. "They're as bad as professors in Beijing University," he said. "No, worse!"

Many Sinologists are children of John K. Fairbank and Edgar Snow, men who are responsible for great harm. The children—like their fathers—exist not so much to study and explain Communist China as to defend and justify it. And they are corrupt, said Yang: awash in PRC money. Yes, I replied, but they'd do it for free, believing in what they do. He conceded that this was so.

Whether China scholars have more money from Beijing or Middle East scholars have more money from Arab rulers is an open question—but the safe betting is on the Middle East men. Some critics regard this money as absolutely corrupting. Others say, "No, they'd do it for free"—which is my view, and also that of Daniel Pipes, a Middle East scholar who is decidedly not the type to win an emir's favor. (That would have to be one enlightened emir.)

On this, most everybody can agree: Money must play some sort of role, if only at the margins; at the same time, you don't have to be bought to be wrong.

There was never much money in "Sovietology," according to Richard Pipes, the father of Daniel and the eminent historian of Russia. He remembered this crowd in a recent conversation: "They resented you if you criticized the Soviet Union, the Communist party, and I was regarded as really way out, because I was so critical." Why were others so uncritical? Well, "for one reason, they simply identified with the Soviet Union. For another, they liked to go there"—and Moscow wasn't real good about letting you in if you were critical (or letting you out if you were critical and a Soviet citizen).

In the old days, 'Sovietologists' tended to sympathize with the Kremlin. Middle East studies men are apt to sympathize with the PLO and worse.

One day, Pipes testified before Senator Jackson's committee about SALT. He took a hard, and realistic, line. Opposing him was an Ivy League Sovietologist who took the soft and unrealistic. As they were leaving, the Sovietologist said to Pipes, "I really agree with you, but if I talked as you do, I wouldn't be able to go to the Soviet Union. They wouldn't give me a visa."

Pipes says that, on balance, the Sovietologists did more harm than good—misleading the public, getting their subject

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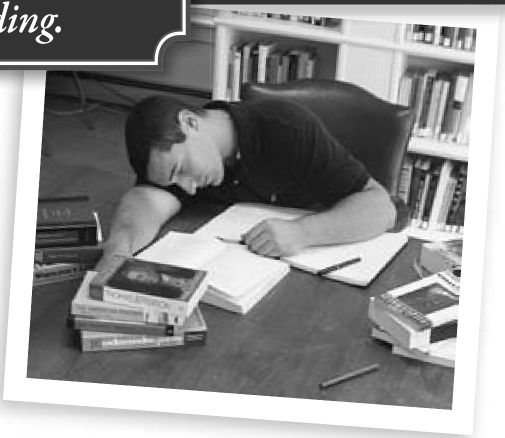


"utterly wrong." And when the USSR fell, they simply glided on. Some of them are now attending conferences hosted by Putin.

Daniel Pipes has paid a price for being out of step on the Middle East—for speaking bluntly about dictatorships, Islamism, and related matters. He would not be welcome in most faculty lounges. Also, he has received his share of threats, and not of the light kind, either. But he has found his outlets, forged ahead, and done considerable good. Incidentally, his college roommate was Arthur Waldron—a China scholar who can be counted on for seeing that country clear. That was an amazingly bold and independent-minded room.

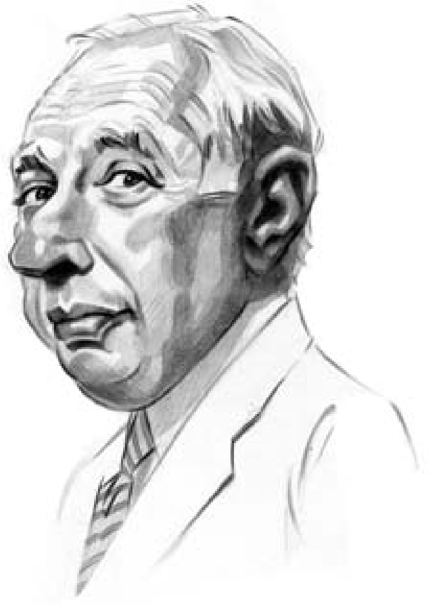
There is an organization for orthodox scholars of the Middle East—that is, for leftist and politically charged ones. It's called the Middle East Studies Association, or MESA. It is led by such men as Rashid Khalidi, an FOB (Friend of Barack) and the holder of Columbia University's Edward Said chair.

The late Said is the father of this MESA crowd, or at least an influential big brother. So much has been written about him, I will not add a word here. But I'll give Paul Johnson one. In September 2006, he was contemplating a book to be called "Monsters." And he wrote that he would include Said, "this malevolent liar and propagandist, who has been responsible for more harm than any other intellectual of his generation."

Before 9/11, MESA was pretty much a joke, a Marxoid playground whose pinup was Yasser Arafat and whose significance to the larger world was slight. It was hard to get a decent education in Middle East studies, but that was okay: We all have to make sacrifices. After 9/11, however, the joke was not so funny. There was a real need for soundness on the Middle East. As the Iraqi-American scholar Nibras Kazimi put it, "America and the world cannot afford to lounge around in the blissful lethargy of intellectual shallowness now that the jihadists of the Middle East . . . have declared their war and delivered their bomb-laden calling cards."

Last year, an encouraging event occurred: the founding of a new organization, the Association for the Study of the Middle East and Africa (ASMEA). This was to be, in brief, what MESA should be, and almost certainly used to be. (MESA was founded in 1966, before the rot set in.) ASMEA's chairman is Bernard Lewis, the great nonagenarian London-born scholar. On the academic council sits George Shultz, who is so desirous of new and helpful institutions.

Launching the institution, Lewis gave a typically learned, elegant address. "It seems to me that we are beset by difficulties," he said—difficulties in Middle East studies. That was putting it mildly. And one of those difficulties is "the deadly hand of political correctness." He hopes that ASMEA can help provide relief from that hand. MESA men have denounced the rival organization as, essentially, a neocon plot. So, what else is new?



Prof. Bernard Lewis

DARREN GYGI

In a phone call with me, Lewis said that there are of course scholars who are with him and his crew, but who must keep their heads down, given the academic climate. "They explain that coming out openly would be destructive of their careers, and they're right—it would be." Well, are they cowardly or merely prudent? That was what I wanted to know. Lewis was not inclined to pass judgment.

I myself once thought of being a Middle East man. This was when I was an undergrad, in the mid-1980s. I thought that the Middle East would become ever more important, not because I was so prescient but because, frankly, it was rather obvious. I was an excellent candidate for Middle East studies: I thought that the Palestinians were the most wronged, the most victimized people in the world; and I thought that the Israelis were the worst, most hypocritical oppressors in the world. Etc.

Fired with purpose, I enrolled in the Middle East studies department. I have written about this experience elsewhere, and will not wax too autobiographical now. Suffice it to say that I was scared straight. Do you remember that phrase, which is from the same period, the 1980s? It had to do with drug use. If you saw the horrific effects of such use, you were scared straight. And, in that department, I saw true radicalism and hate and zealotry—a belligerent lunacy.

Among other episodes, I remember a kind of beer-hall speech that a young professor of ours gave. This was at a forum whose audience was dominated by Arabs. Shouting and pumping his fist, he admonished them to forget any negotiating with Israel and not to surrender an inch. Stay true, stay true, he said. The audience cheered like crazy. Later, an older professor said to this younger one, "No one gets Arabs riled up like you do." (The young professor was not Arab, by the way.)

In the fullness of time, my guy became president of MESA—a perfect fit.

As for me, I withdrew from the department, knowing that this was not my crowd. I may have been anti-Israel, but I drew short of jihad. And later I found Lewis, and David Pryce-Jones, and Fouad Ajami, and many others who furnished understanding. You can always find such people. But you have to work for it, and how many people have the time and drive?

It would be nice if average Middle East scholars were more helpful than they are. The same is true of the China guys—and was true of the Sovietologists. But somehow we make do. And, today, we have the Middle East Media Research Institute: MEMRI.org. They provide an invaluable education all by themselves.

And if you have 10,000 MESA profs on one side, and just Bernard Lewis on the other—it's still an unfair fight, favoring Lewis. **NR**

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NAPLES, FLORIDA – AUGUST 2009

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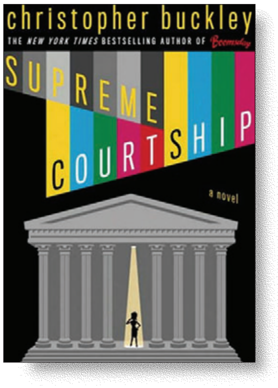
books, arts & manners

Carpe Christo



Supreme Courtship,
by Christopher Buckley
(Twelve, 285 pp., $24.99)

KATHLEEN PARKER

CHRISTOPHER BUCKLEY doesn't merely observe the zeitgeist better than anyone else on the planet. He anticipates it—and routinely has a new novel finished at the precise moment when everyone else is about to notice that something is afoot.

Call it premature instinct. Whatever it is, he seems to have intuited that one Sarah Palin—a made-for-TV, gun-totin', caribou-kickin' frontier woman—was about to emerge, suddenly and improbably, onto the national political scene. Which is to say, *Supreme Courtship*'s female protagonist, Perdita "Pepper" Cartwright, is eerily Palinesque, a literary doppelganger so true that you begin to wonder which is the fictional character—Palin or Pepper? Satire doesn't cut much closer to the bone.

Supreme Courtship focuses primarily on the nation's judicial rather than executive branch, though the two have been known to commingle during presidential elections. Pepper, a reality-TV judge, is nominated to the U.S. Supreme Court by Pres. Donald P. Vanderdamp as revenge against a Connecticut senator, Dexter Mitchell, who keeps blocking the president's nominees. In one instance, an exceptionally qualified candidate was rejected for having insufficiently appreciated *To Kill a Mockingbird* (in high school), which Mitchell construes as proof that the nominee is a racist.

Judge Pepper Cartwright, whom Vanderdamp discovers while channel surfing one night, is a brilliant pick for all the wrong reasons. Sound familiar? She's a sharp, sassy, salty, sexy, tough-talking, no-nonsense pistol, who knows how to use one and never backs down. She's also easy on the eyes and otherwise completely unqualified. But never mind. She's wildly popular among that beleaguered group held alternately in awe and contempt by Beltway insiders—Ordinary Americans.

If you're not thinking about Sarah Palin within the first 15 pages of this book, you're not from here.

Christopher Buckley has satirized nearly every facet of Washington life in previous novels that have won him wide recognition as the nation's premier humorist. But none have provided as rich a vehicle as the Supreme Court for spoofing an array of hypocrisies, foibles, and cultural indelicacies—from abortion and gay marriage to immigration and the intersection of religion and public policy. As a perhaps unintended bonus, we get a glimpse of what may be forthcoming in today's political swirl.

Other key characters are every bit as colorful as the feisty Supreme Court nominee. Among them are Chief Justice Declan Hardwether, whose wife left him to marry "Doreen" after Hardwether's tie-breaking vote legalizing gay marriage; Pepper's soon-to-be-ex-husband/producer, Buddy Bixby, whose other two reality shows feature people who commit suicide by jumping off bridges and people who are grossly obese; Pepper's father, the Reverend Roscoe, a megachurch televangelist who wears white patent-leather boots with crucifixes. Roscoe became a minister upon the death of his wife (Pepper's mother), who was struck by lightning while playing golf. On a Sunday. Interpreting his wife's misfortune as a sign of God's displeasure, Roscoe rebirthed himself accordingly.

The plot revolves around a presidential election between Vanderdamp, who wants to lose, and his nemesis, Mitchell, who by then has left the U.S. Senate to

Kathleen Parker is a syndicated columnist, and author of *Save the Males: Why Men Matter, Why Women Should Care.*

ARCHAEOLOGIST

For hours, he sat in the ancient cave alone,
stunned by what he'd found in the dust and debris:
a huge picture, frescoed into the stone,
high in the cliffs over the Tyrrhenian Sea.
It showed some red-robed figures gathered at dawn
for a sexual ritual under the shameless skies,
surrounding a naked woman, obscenely drawn,
who stared out helplessly into his eyes.
Yes, it was nearly four thousand years old,
but the face was hers, the face of his fiancée,
who waited in Maine, waiting alone in the cold,
and no one would ever see her looking this way.
He rose, chipped off her face, then sailed to Rome,
never reporting his find, then flew back home.

—WILLIAM BAER

star in yet another Bixby television production—*POTUS*. Suffice it to say, the Supremes get involved. Complications include sexual dalliances where you'd least expect them, hastily written e-mails accidentally sent, incriminating leaks to the press, and a sudden, untimely death. All part of a routine day in the nation's capital.

It is easy—and in my case customary—to read a Christopher Buckley book in one sitting, but I stretched this one out for sheer pleasure. His gimlet eye and swashbuckling style are so much fun, you want to read aloud on street corners. He is at his comic best when justices and lawyers spar in court, lobbing Latinisms and legal arcana like drunken Mensa conventioneers. Or, perhaps, like Buckleys at a family reunion? My only quasi-quibble is that Buckley seems to suffer an affliction common to other members of his family. Call it "Parenthetical Tourette's"—a tendency to litter prose with footnotes, asterisks, and (parentheticals). When one is very, very clever, it must be very, very difficult to deny even ancillary thoughts a place on the printed page.

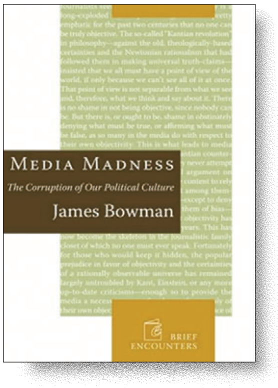
I confess to mixed feelings about this Buckley tic. I am annoyed by interruptions that force my eye to the bottom of the page, but ultimately, I land where Buckley did in his foreword to his uncle Reid Buckley's delightful family biography, *An American Family: The Buckleys*. He wrote that though he initially found his uncle's footnoted digressions and clarifications "deflating," he soon began to look forward to them. After all, he noted, "it was said of Edward Gibbon that he lived out his sex life in his footnotes. *Mutatis mutandis*—as William F. Buckley Jr. might put it—there is something of that in Reid's luxuriant footnotes."

Ahem, yes, well, ditto, ergo, and et cetera. That goes for here, too.

*Footnote: In today's world—where truth is, indeed, stranger than fiction—it is difficult to know where satire begins and reality ends. That is, of course, Buckley's point. Art no longer imitates nature, but rather creates it. The TV judge becomes the Supreme; the presidential candidate first has to play one on TV. It is reasonable, therefore, to ask: How does one satirize satire?

The answer is: Like this. **NR**

Biased and Bonkers



Media Madness: The Corruption of Our Political Culture, by James Bowman (Encounter, 134 pp., $20)

KEVIN D. WILLIAMSON

Even if he did not write media criticism, James Bowman would be a media critic by example: His original thinking and lucid prose are an implicit rebuke to the cliché-ridden, English-torturing, deep-as-a-bumpersticker discourse that issues from so much of the American media. In *Media Madness*, Bowman goes Sigmund Freud on press pundits and television blatherers, diagnosing in them a psychosis whose symptoms include paranoia, delusions of objectivity, and gradual withdrawal from reality.

Bowman is complaining not about the media's lack of objectivity, but about their pretense to it. The myth of objectivity, Bowman argues, allows the media to relieve themselves of the more homely burden of being honest about their own prejudices and scrupulously fair to those who do not share them. He writes: "If you are truly objective, what need do you have to be fair? You speak, as it were, from no point of view—or all points of view at once, which comes to the same thing. In other words, you speak with the voice of God. To believe this is the very essence of media madness, and it is to eliminate the need for fairness."

Bowman's scoffing at objectivity takes him into rocky philosophical territory,

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which he navigates ably; it is a little jarring, pleasantly so, to find a conservative citing Jean Baudrillard, darling of the postmodernists, without total disdain. His skillful summary of the Kantian revolution—"we all must have a point of view of the world, if only because we can't see all of it at once"—is worth committing to memory. He concludes that objectivity's partisans are "Kantian counterrevolutionaries," which, as Dave Barry would surely note, would make a great name for a band.

Bowman's insights, however, are not distilled so much from the pristine snows of Olympus as from his connections with the sometimes grimy and never objective world of British journalism. A former correspondent for the *Spectator* of London and U.S. editor of the *Times Literary Supplement*, as well as a Cambridge graduate and former English schoolmaster, Bowman appreciates that there is an alternative model of journalism, one in which both individual journalists and the institutions they serve are open about their political allegiances. This openness has the pleasingly perverse effect of liberating British and European journalism from much of the dowdiness (and Dowd-iness) that afflicts the American press. A conservative reads Britain's *Guardian* with certain caveats, but need not fear that its editorial pages will affect the Voice of God. Or even the Voice of Pinch Sulzberger, which is quite enough.

LEGACY

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Political frankness, and the immediacy it enables, is part of what is attracting readers to the new media as they allow their subscriptions to *Newsweek*, the *New York Times*, and the *Daily Local-Yokel* to expire. But here Bowman also sounds a note of warning. Simply transferring Associated Press reportage from thin sheets of wood pulp to a computer screen does not guarantee that the pretenses, prejudices, and sloppy thinking that characterize the wire service will be stripped away. The medium is emphatically not the message, and Bowman's media madness is perfectly capable of hopping from one format to another, a vinegary old rosé in a new cask. Perhaps this would be a good moment to reflect upon the unhappy trajectory of Andrew Sullivan, whose move from editor of the very old-media *New Republic* to his current incarnation as bonkers blogger is a case study in media madness, e.g., his barking-mad obsession with Sarah Palin's gynecological records. Bowman's book was written and printed before that particular media orgy got under way, but we can look forward to future dispatches from him on the subject.

The media love a scandal, of course, but not only for the obvious reason that prurience sells newspapers and epoxies eyeballs to TV screens. Bowman here makes an important and useful observation: The underlying narrative of the media isn't just progressivism, but utopianism. Bowman concentrates on political journalism, of course, but he might as easily have taken a look at the business pages, where every time a firm goes bankrupt and shareholders lose money it is assumed that malfeasance is at the root of the losses. In business—as in war, as in politics or any complex undertaking—things go wrong. Bowman argues that the media's implicit utopianism is what inspires them to treat every shortcoming, mistake, gaffe, or unforeseen development as a scandal. The greatest "scandal" of the Bush years, that no great trove of horrific weapons was uncovered in Iraq after the invasion, provides Bowman with his most salient case study. Laboring under the misconception that the only explanation for imperfection is malfeasance, the Democrats and their media instinctively argued that Bush was not simply wrong about Saddam Hussein's arsenal, but that he lied. Bowman writes:

> Simple folks might cling to a belief in the war as an attempt by an ordinary decent and patriotic president with his country's best interests at heart to further those interests and avenge the grievous wound of 9/11 by making an example of one of America's enemies who was also a sponsor of terrorism. Media sophisticates know that it cannot be that *by definition*.

Bowman finds much media misbehavior rooted in a Darwinian struggle for status. The media-Democratic alliance, he argues, cannot genuinely believe that George W. Bush is as much of a dunce as they pretend he is (when they are not pretending he is an evil genius who outwitted the world's top intelligence services on Iraq). Demeaning the president's intelligence is a covert way of elevating themselves by comparison—what better yardstick than the pontifex-potentate we have made of the government's chief administrative officer?—and intelligence, rather than honor, goodness, courage, or the like, is the cardinal virtue in the mediaplex. In this chapter, Bowman is accidentally prophetic, writing: "Thus Joseph Biden, one of those candidates for the presidency whose chief disqualification for the office he seeks is the lack of political judgment demonstrated in thinking he could be elected to it, is also happy to join the media-mad by calling the Bush administration 'brain-dead.' He thus affirms that he is a member of the Bush-haters club by tacitly agreeing to treat a proposition he knows not to be true as if it were true."

But condescending to the president is only one part of the liturgy; Bowman has great fun with the "Everything you know about X is wrong" genre of headlines and book titles, finding that, without the help of the media, the human race would be in uttermost ignorance about sex, love, grilling the perfect burger, the NBA, and the achievement of sexy, flat abs. Where would we poor know-nothing mooks be without the media to explain everything, and to sneer at us?

But sneering is not an activity limited to Democrats, or to those wide swathes of the media affiliated with them. And here

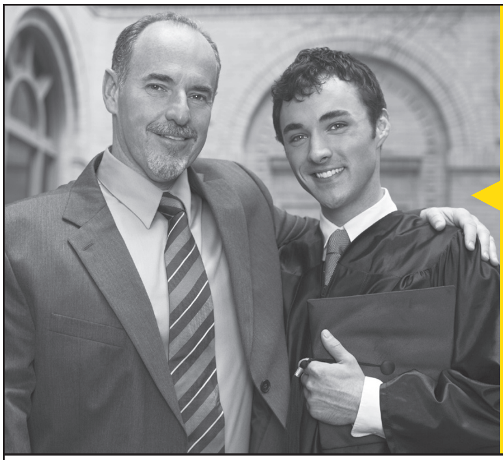
Bowman does not quite deliver. There is some question about how much of the vapidity of American political discourse is a consequence of Democratic biases and how much is a consequence of a media culture that is distorted by things other than leftish politics. It is sometimes difficult to distinguish between the two, but there is one obvious way to begin that project, which is looking at the ways in which "media madness" infects conservative outlets and commentators. This is a Rubicon that Bowman is not quite ready to cross, and his analysis suffers for it. He faults Bush's media critics for hyperbole, but describes Ann Coulter as "daringly outspoken." It is difficult to believe that a critic for the uncompromisingly highbrow *New Criterion*—a journal that takes T. S. Eliot as its intellectual patron saint—believes that Coulter ought to be the type and model of political discourse. It's been a long time since William F. Buckley Jr.'s *Firing Line* was setting the standard. If the conservative critique is to break out of the intellectual ghetto, the Konservative Korners of the mediaverse, the excesses are going to have to be dealt with, and dealt with convincingly.

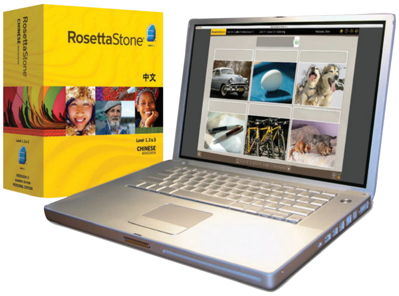
It's worth bearing in mind how much play conservative TV talkers gave to such trivia as the death of Anna Nicole Smith, because doing so reminds us that much of what Bowman finds objectionable in our media culture is simply our culture, with its democratic relish of spectacle and of seeing the high and mighty brought low and whiny. None of this diminishes Bowman's insightful criticism. In fact, he goes a long way toward answering the question of why the media and liberalism go together like Donny Osmond and purple socks:

> Hypothetical perfection shadows more and more of what the media "cover," from the Iraq war to health insurance to campaign finance to gun control. More and more frequently media madness leads to the assumption that all these immensely complicated and difficult matters are moral rather than political. The choices they demand of us thus become simple and binary ones: either we are for or against the war, for or against universal health care, for or against limiting the amount of money in politics, for or against getting guns off the street. Putting the questions in this form is a way of pre-determining the answer that people give to them, but it doesn't bring us any closer to real-world solutions to any of the underlying problems.

In short: You're either with Al Gore or against life on earth.

For all his scholarship, Bowman properly identifies the germ of media madness, and its cure, in the low things rather than in the high things. He handles his poststructuralists and po-mo theorists with aplomb, but finds at the end that the problem isn't one of philosophy but of common things: being careful with one's words and one's thoughts, and cultivating fairness, intellectual scruples, and a sense of proportion. That has long been the prescription the media need. **NR**





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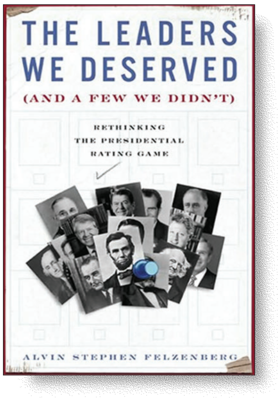
Ratings Sweeps



The Leaders We Deserved (and a Few We Didn't): Rethinking the Presidential Rating Game, by Alvin S. Felzenberg (Basic, 480 pp., $29.95)

JAY COST

A VETERAN of two Republican presidential administrations, Alvin Felzenberg offers a novel rating system for the U.S. presidents. It differs from those produced by such scholars as Arthur Schlesinger Jr. in both its methodology and its results.

Methodologically, the ratings are based not on a survey of academics, but rather on the application of six criteria. Each president receives a grade (one to five) for three personal qualities (character, vision, and competence) and three areas of policy output (economic policy, "preserving and extending liberty," and foreign policy). These grades are averaged to produce a president's score.

Felzenberg's results are frequently surprising: Eisenhower, Reagan, and even Ulysses S. Grant find themselves in the top ten. FDR has fallen out of the top five, Thomas Jefferson has dropped to the middle of the pack, and Andrew Jackson now sits in the bottom third. These twists—combined with Felzenberg's lively prose and his incisive narrative of many administrations—make the book an interesting read. His contrarian interpretation of Grant's presidency is particularly welcome, as is his defense of Reagan.

Nevertheless, the work suffers from several deficiencies. Felzenberg is to be credited with wanting to apply rigorous criteria as an alternative to polling (typically liberal) scholars; unfortunately, his methodology is not up to the task.

There are three salient problems.

First, the criteria themselves are problematic. Felzenberg posits these six standards and assumes that we will agree that they are self-evident. Upon first glance, they appear to be, but on closer inspection maybe they aren't.

As I mentioned above, three of the criteria hinge on personal qualities and three on policy outputs. Higher scores for the personal qualities should make a president more successful; thus, higher personal scores should yield higher policy scores. This appears to be the case with vision and competence: An analysis of each president's scores indicates that these personal scores are closely related to output scores. So, for instance, a president with a high vision score is more likely to receive a high score on preserving and extending liberty.

However, the scores on "character" have only a weak relationship with the output scores. The correlation between character and economics is only 25 percent, between character and preserving and extending liberty 48 percent, and between character and foreign policy a measly 10 percent. In other words, character seems not to matter much when it comes to performance. Felzenberg says that character "can be a precursor" to presidential greatness, but the results leave one wondering if this is really the case.

While the other personal qualities show a stronger relationship with policy outputs, even here there are some peculiar exceptions. For instance, only three presidents receive a perfect score for preserving and extending liberty: Lincoln, Grant, and Lyndon Johnson. Lincoln and Grant both receive a perfect vision score—but Johnson receives a three out of five. This is strange, as Felzenberg defines preserving and extending liberty in terms similar to those of his definition of vision: Preserving and extending liberty is the "principal mission of the country," and vision has to do with the "purpose of America." This definitional closeness makes one wonder how LBJ can do so well on one and so poorly on the other.

There are other oddities of this sort.

Mr. Cost writes the HorseRaceBlog for RealClearPolitics.com.

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Thomas Jefferson, author of the Declaration of Independence, receives a four out of five on vision (the same score as Zachary Taylor). This points to the second major problem with the methodology: It requires judgment calls that stretch far beyond the reach of the data. Granted, we can detect differences between Herbert Hoover and Abraham Lincoln; but Felzenberg claims to find much smaller differences. For instance, he gives James Monroe a vision score of four, while George H. W. Bush rates merely a two. It is difficult to believe that the data allow for this kind of fine-grained distinction. Yet it is these seemingly minute differentiations that produce much of the final results.

Felzenberg is to be credited with bringing to the presidential-ratings game a quality that had been sorely lacking: an opportunity to debate.

The third problem with the system is that no criterion captures the effect a president can have on the institution itself. Presidents make and remake the office, and in this way can influence the country beyond their policy achievements. But Felzenberg has no category to account for this—and this, too, occasionally produces strange results. For instance, Thomas Jefferson, a paradigm-shifting president who helped transform the office, receives the same final score as James Monroe, who was working within the Jeffersonian framework.

This problem is most pronounced with Jackson. We can, of course, criticize Jackson when it comes to the wisdom of his bank policy, or the morality of his Indian policy, but there is no doubt that Old Hickory helped make the presidency what it is today. Indeed, Lincoln drew upon Jackson's stand against Nullification to defend the Union. Felzenberg faults previous historians for overestimating Jackson. He may be correct—but, by excluding a category to account for the institutional changes that leaders like Jackson helped create, Felzenberg has ended up underestimating him.

More broadly, Felzenberg's omission of any institutional variable means that his ratings retain the strange "apples to oranges" quality that prior ratings have had. How, for instance, can Bill Clinton be judged in relation to Chester Arthur? The presidency in 1881 was a very different *institution* than it was in 1993. How can we profitably compare its occupants across time? Felzenberg, like previous raters before him, does not give a satisfactory answer to this important question.

Given that one of Felzenberg's professed purposes is to cleanse the presidential-ratings game of past liberal biases, the following must be mentioned. Being a Republican is positively associated with a higher score along all six criteria. Being a Democrat is negatively associated along all six criteria. That is, in the aggregate, Felzenberg's analysis slightly but consistently tilts toward the GOP. This analysis jibes with several noteworthy results: There is no Democratic president in the top five. FDR, the highest-rated Democrat, sits in the seventh position, sandwiched between Eisenhower and Taylor. The Jacksonian Democrats—for whom Felzenberg has barely a kind word—never break the bottom half; all but one (Polk) are in the bottom third. If conservatives have been rightly unhappy with the results of surveys like Schlesinger's, liberals might have reason to be unhappy with Felzenberg's conclusions. Nevertheless, Felzenberg is to be credited with bringing to the presidential-ratings game a quality that had been sorely lacking: an opportunity to debate. Though I disagree with Felzenberg's methodology and many of his conclusions, it must be noted that he—unlike others—has offered a thorough explanation of his reasoning. Previous ratings typically relied upon a poll of "the experts." This made them seem less like the initiation of a public discussion and more like the final word from the Ivory Tower. Felzenberg has offered a correction to that condescending attitude by giving us clear reasons for his ratings. He offers us an opportunity to deliberate, discuss, and ultimately sharpen our views of the presidents. In this regard, he has done us a service. The book can be recommended to those with an interest in this subject—not as the final word, but as the opening argument in a long-overdue debate. **NR**

An Epic Talent

MARK HEMINGWAY

THE recently deceased novelist, essayist, and journalist David Foster Wallace was a genius. And a big, showy one at that. His style, laden with his trademark footnotes, was that of a man whose brain was permanently stuck in overdrive—a mind so bright, an observer so exactingly acute as Wallace seemed to have no other option. He was going to struggle mightily to convey the whole of his experience and insight on any given topic, and lest anything slip through the cracks he would insert it on the bottom of the page where he hoped that there was still room, given his typically voluminous outpouring. They say brevity is the soul of wit, but Wallace's agile mind was witty enough to rewrite the rules.

Wallace's two collections of journalism and essays, *A Supposedly Fun Thing I'll Never Do Again* and *Consider the Lobster*, remain his most accessible works. But most of his career came in the shadow of his magnum opus, the dystopian doorstop of a novel *Infinite Jest*. The book describes a future in which the U.S. has turned a huge section of its Northeast into a toxic-waste dump (where herds of feral hamsters roam) and declared that region part of Canada, angering our neighbors to the north to the point that there's a terrorist group made up entirely of Quebecois assassins in wheelchairs frantically searching the country for an avant-garde film—the *Infinite Jest* of the title—they plan on using as a weapon. The film is said to be so compelling that all who see it want to do nothing but watch it until they waste away. Even more oddly, most of the book's characters are either youths at a tennis academy or the occupants of a drug-rehab center.

The novel is about addiction, and about the whole of the American experience. It's very, very funny and very, very sad and, according to the jacket copy, which for once is not exaggerating, is "one of those rare books that renew the very idea of what a novel can do." But as is most often

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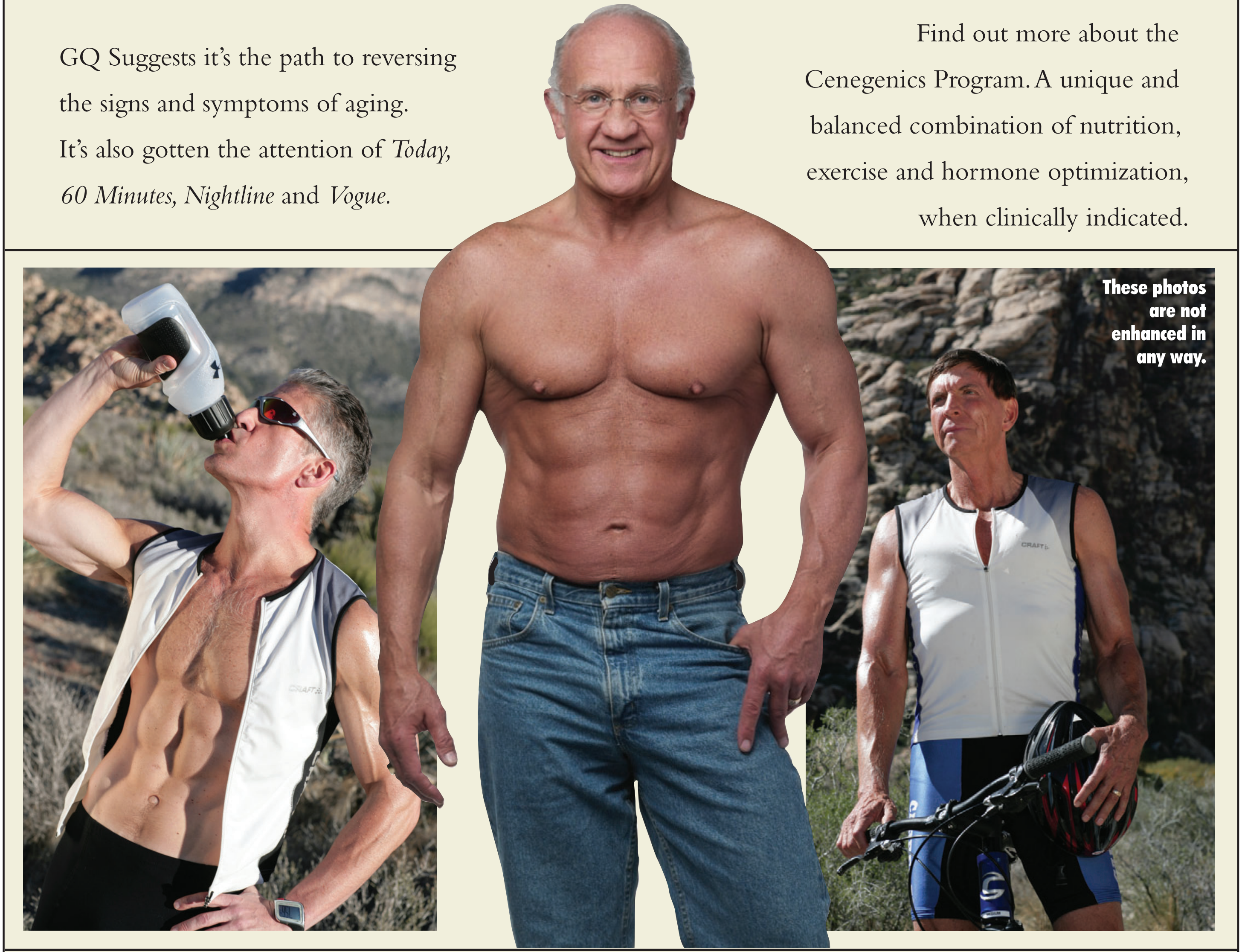

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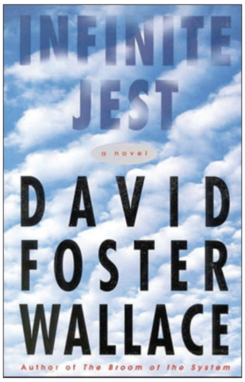
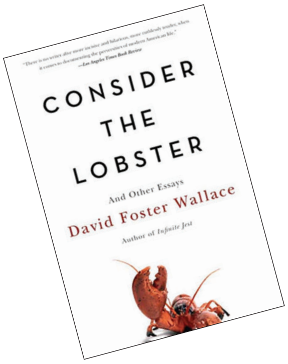
remarked upon, it is nearly a thousand pages long, not counting the additional 97 pages that contain the book's 388 footnotes.

To say Wallace needed an editor is a not-altogether-unfounded criticism, but *Infinite Jest* is surprisingly readable. It's true that its length is almost unmanageable; it's overstuffed with textual games and knowing pop-culture references and, as such, appears to bear all the hallmarks of postmodern literary self-indulgence. And yet, the two most common assessments of *Infinite Jest* and, to some extent, of Wallace's entire literary output—that it is self-indulgent and postmodern—are fundamentally wrong.

A SUPPOSEDLY FUN THING I'LL NEVER DO AGAIN
ESSAYS AND ARGUMENTS
DAVID FOSTER WALLACE
AUTHOR OF INFINITE JEST



Girl with Curious Hair
DAVID FOSTER WALLACE



To put it plainly, Wallace was the postmodernist who wasn't. What Wallace wrought in *Infinite Jest* and elsewhere wasn't just brilliant writing in the vein of a previous generation of postmodernists (think Gaddis, Pynchon, Barth, DeLillo) so much as a *response* to them. Where a generation of writers before him saw America as a vast canvas for their expansive intellects and decried it as a hollow, satire-demanding place, Wallace almost never wrote without empathy for the world of flesh and blood and feelings and those who inhabit it.

As the critic A. O. Scott observed, Wallace's early novella "Westward the Course of Empire Takes Its Way" (published in his first short-story collection, *The Girl with Curious Hair*) pulled off a neat trick. "It features authorial intrusions in the manner of John Barth; whimsical collages of wild fabulation and deadpan realism that recall Richard Brautigan, or maybe middle-period Kurt Vonnegut; and long, long sentences in the style of Donald Barthelme. The proceedings are shot through with an air of wild Pynchonian intrigue," Scott wrote. The novella, set in a creative-writing workshop, adeptly mimicked nearly every major postmodern writer—solely for the purpose of exposing the limitations of their cleverness. (Wallace singles out Barth's unbelievably self-referential book *Lost in the Funhouse* for an especially delightful skewering.)

Which is not to say that Wallace's own displays of literary pyrotechnics were insincere. Wallace truly did believe in pushing the envelope of what language could do and how it could be employed. But in a very contradictory and unpostmodern fashion he was also acutely sensitive to the rules and limitations of language. He wrote a very credible and amusing essay for *Harper's* on the debate over whether English usage rules should be prescriptive or bend and break as usage changes. And one of *Infinite Jest*'s many amusing asides concerns an organization known as the Militant Grammarians of Massachusetts, which, among other things, organizes boycotts of stores featuring signs that read "10 items or less."

Wallace's biggest indictment of postmodernism was that he never stopped raging against solipsism, literary or otherwise. Wallace, whose academic background leans heavily on math and philosophy, took the topic on directly in his now-classic commencement address at Kenyon College, where he said:

> Think about it: There is no experience you've had that you were not at the absolute center of. The world as you experience it is right there in front of you, or behind you, to the left or right of you, on your TV, or your monitor, or whatever. Other people's thoughts and feelings have to be communicated to you somehow, but your own are so immediate, urgent, real—you get the idea. . . . This [i.e., the act of trying not to be self-centered] is not a matter of virtue—it's a matter of my choosing to do the work of somehow altering or getting free of my natural, hard-wired default-setting, which is to be deeply and literally self-centered, and to see and interpret everything through this lens of self. People who can adjust their natural default-setting this way are often described as being "well adjusted," which I suggest to you is not an accidental term.

Wallace went on to note that once you become well-adjusted, you'll realize that "the really important kind of freedom involves attention, and awareness, and discipline, and effort, and being able truly to care about other people and to sacrifice for them, over and over, in myriad petty little unsexy ways, every day."

For better or for worse, the spirit that defines Wallace's writing is that of someone striving to be self-aware—sometimes painfully, cringe-inducingly so. It thus becomes hard not to see his writing as something of a *cri de coeur* against many of his immediate literary forebears.

That's how Wallace, whose writing normally oozed decency and compassion for all but the most contemptible subjects, came to write just about the only caustic thing of note in his entire career. It was a particularly savage and devastating review of John Updike's *Toward the End of Time*, in which Wallace threw down the gauntlet against what he termed the "Great Male Narcissists" of postwar literature: Updike, Mailer, and Roth. Here Wallace finally made clear his feelings about the previous generation of literary masters: "When a solipsist dies, after all, everything goes with him. And no U.S. novelist has mapped the solipsist's terrain better than John Updike, whose rise in the 60s and 70s established him as both chronicler and voice of probably the single most self-

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absorbed generation since Louis XIV." *Toward the End of Time*, he continued, is a bad book, unbecomingly obsessed with sex and death. "[The narrator's] unhappiness is obvious right from the book's first page. But it never once occurs to him that the reason he's so unhappy is that he's an a**hole."

Wallace's anger at what he perceived as Updike's narcissism reveals something about who Wallace was. For all the cranial firepower he possessed, he was actually a modest person. He was just Dave Wallace to most (his literary agent suggested he use his middle name, as there were a number of other David Wallaces already writing), the unfailingly courteous midwesterner who sent thousands of immaculate and mostly typewritten notes to his friends throughout his life. As literary titans go, he wasn't pretentious: He liked dogs, he rather ashamedly chewed tobacco in nearly every social setting, and he almost never wore anything resembling formal attire. In his later years, he was enough of a literary rock star to inhabit an extremely well-endowed academic position created especially for him; yet he never took advantage of his success to retreat to writerly solitude and avoid sharing his gifts. Professor Wallace taught thousands over the years and was consistently rated an outstanding and thorough teacher, wildly popular with his students.

But to the extent that Wallace appeared to be "well-adjusted," this was the result of a profound lifelong struggle. He dropped out of Harvard's graduate philosophy program to wage a rumored battle with drug addiction and other psychological problems, and an anonymous and hyperliterate testimonial on the website of a drug-treatment center in Massachusetts is widely assumed to have been written by Wallace. If he hated solipsism, that hatred might well have been a result of hating the thing he feared the most—that he would give in to his own demons.

Which, in the end, is exactly what he did. David Foster Wallace committed the ultimate act of solipsism, hanging himself on Sept. 12, 2008, at age 46, leaving behind a lovely wife. However self-centered and sadly clichéd his demise, it seems unlikely that it will overshadow a literary voice so powerful that at times it felt as if Wallace could singlehandedly hold back the postmodern mudslide and be the moral conscience of American fiction. May he rest in peace. **NR**

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■ FILM ■

Burn before Watching

ROSS DOUTHAT

If you're the sort of filmgoer who thinks of the Coen brothers as American cinema's most nihilistic, misanthropic double threat, tittering behind their movie camera at the duncery and pointlessness of human affairs, you'll find vindication aplenty in *Burn after Reading*, the sibling act's 13th film and easily one of their most unpleasant. As for those of us who prefer to think of the Coens as misunderstood humanists whose taste for the absurd and the grotesque obscures their underlying moralism—well, there's nothing to be done after a film like this except slink off to our dens and slip *Raising Arizona* or even *Fargo* in the DVD player, in the hopes that the bighearted charms of H. I. McDunnough or Marge Gunderson will wash the sour taste of *Burn after Reading* from our palate.

This is not to say the brothers' latest effort is without its pleasures. Critical accolades seem to inspire the Coens to pursue parody: The much-lauded *Fargo* was followed by *The Big Lebowski*, a shaggy send-up of a Raymond Chandler whodunit, and now they've followed up last year's much-garlanded *No Country for Old Men* by taking aim at the D.C. spy thriller. All the familiar elements are in place—the Langley corridors, the gliding black cars, the Georgetown gunshots, the A-list stars (George Clooney *and* Brad Pitt), and of course the much-prized, much-pursued disc encoded with top-secret information. Except that the information on the CD is worthless, the A-list stars are playing dolts, the guns go off by accident, the gliding cars are carrying process servers, and Langley doesn't have a bloody clue what's going on.

At the center of the idiocy is Osborne Cox, an aging spook with a penchant for bow ties, mixed drinks, and pronouncing words like "penchant" with a distinctly Francophone lilt. Cox is played by John Malkovich as a man oscillating between wounded hauteur and alcohol-fueled fury: Fired from his job as a CIA analyst, he retreats to his Georgetown rowhouse to pen a tell-all memoir—which he pronounces "mem-wah," of course, in conversation with his chilly, exasperated wife (Tilda Swinton), who's plotting to leave him for a cheery, womanizing goof named Harry Pfarrer (Clooney) and swipe his assets along the way. Her plot, hatched with a divorce attorney, requires downloading the details of Osborne's finances onto a compact disc—the same disc, naturally, that includes the notes for his memoir, which is then lost on its way to the divorce attorney's office, and eventually finds its way into the hands of two coworkers at a suburban gym called Hardbodies, Linda Litzke (Frances McDormand) and Chad Feldheimer (Pitt).

In a film populated by fools and blunderers, Chad and Linda are in a league of their own: They're exemplary morons, though Linda has just enough cunning to make her idiocy a danger to everyone around her as well as to herself. She's lovelorn and fitness-obsessed, convinced she's just a few (expensive) plastic surgeries away from finding Mr. Right; he's more fitness-obsessed still, a wide-eyed, bouncing man-child, guzzling sports drinks and sporting an outrageous pompadour. (Pitt is operating in the same manic key as he did in his Oscar-nominated turn as a mental patient in 1995's *12 Monkeys*, and—as in that film—he's entertaining without being particularly believable: It feels like a *Saturday Night Live* sketch more than an actual performance.)

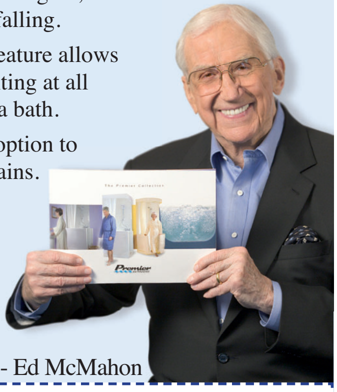
Together—but with Linda as the "brains" of the operation—they decide that the CD must contain high-grade spy secrets, and plot to sell it for enough cash to fund Linda's surgical self-improvements. The baffled Cox is their first target, and when he won't pony up the money they assume the disc is worth, they set their sights on the Russian embassy—while an increasingly baffled CIA ("Report back to me when this makes sense!" barks J. K. Simmons's head spook to his subordinates) surveils them and everybody else from the sidelines.

Exemplary moron Chad Feldheimer (Brad Pitt)

FOCUS FEATURES

There's plenty of funny business woven into this story of international intrigue and epic stupidity—I particularly liked the moment when Cox's wife is revealed to be the world's most terrifying pediatrician, with Swinton channeling her turn as the White Witch while she inspects a pre-teen patient—and the cast is capable and game for anything. But the film turns dark, and then darker still, and the violence, when it comes, is punishing rather than funny.

The Coens have made movies about idiots before, but from *The Hudsucker Proxy* to *Oh Brother, Where Art Thou?* they've usually delivered some of their fools to happy endings, and their outright tragedies (even *Blood Simple*, their pitch-black debut) usually generate at least a trace of sympathy for the feckless, doomed protagonists. In *Burn after Reading*, though, everyone is doomed, and nearly everyone is dislikable. (The lone exception to the latter rule is Richard Jenkins's Ted—Chad and Linda's boss at Hardbodies—and his fate is more unpleasant than most.) If you respond to McDormand's surgery-mad virago, or Clooney's grinning philanderer, with anything resembling sympathy, then you may find more to appreciate in the film than I did. But by the end of the movie, it felt like I was watching an art-house version of a *Friday the 13th*–style slasher flick: The characters were too stupid to live, but it was still unpleasant to have to sit and watch them suffer awful fates, and I couldn't wait for the Coens to just get the whole thing over with. **NR**



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■ CITY DESK ■

The Name Game

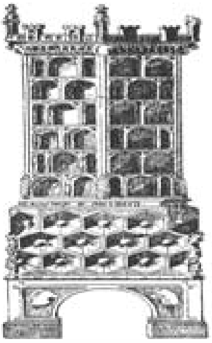
RICHARD BROOKHISER

EXPERIENCE has been an issue in this presidential election, but it didn't have to be. We have a number of former presidents right here, in the New York phone book.

There are, for example, three George Washingtons, one listed as George J. (there is also a G. Washington, who may be hiding his light under a bushel). Now since His Excellency served two full terms, there might be questions about re-re-electing him, given the 22nd Amendment. Yet that amendment had a Truman waiver, exempting "any person" holding the office "when this Article was proposed by the Congress," or when it "becomes operative." Surely Truman's predecessors would be exempt as well. Herbert Hoover was still alive when the 22nd Amendment became the law of the land—he would have had to win a second term, of course, before he could think of a third—and it would not be beyond the powers of the Supreme Court to give a pass to dead presidents, who nevertheless seem to be alive and well in Manhattan.

Every presidential surname can be found in our phone book. Most of these surnames are from the British Isles—English, Scotch-Irish, Irish, Scots (Hayes), Welsh (Jefferson—"from near the mountain of Snowdon," he wrote in his autobiography). Despite the tides of immigration, these ethnicities, after centuries of reproduction, are still well represented in the United States, and most of the surnames that got all the way to the White House would likely be found in any large American city (black Americans tend to share these surnames, which increases the odds). But even the rarish WASPy monickers—Coolidge, Fillmore, Garfield—make it here, as do the ethnics—Hoover, Roosevelt, Van Buren. Martin Van Buren may indeed be our most ethnic president, since he is the only one whose first language was not English. But because of his and New York's common Dutch past, there are fourteen Van Burens here, plus four Van Beurens and one Van Burren. The only surname you have to fudge is Eisenhower, which squeezes in courtesy of Eric Eisenhauer.

Matching full names is harder. Begin by throwing out the false positives—the Theodore Roosevelt Birthplace National Historic Site, the Harry S Truman Democratic Club, the Office of William Jefferson Clinton (a sublet from Charlie Rangel?). There are two columns of Hayeses, but no Rutherfords; three columns of Grants, but not one Ulysses. Only Haitians are named Ulysses these days. Not a lot of children have been christened Chester, Grover, or Woodrow recently. Abraham is enjoying a comeback, as a kind of green and sustainable name. Go to a playground where none of the little boys have haircuts and all the nannies have children named Ulysses, shout "Abraham!" and see how many look up. But the Lincolns go from Christopher to Veronica, Abeless. James is a perennial favorite, yet the Buchanans, Anita to Zerline, pass it by. So we can't draft the best president or the worst. The Nixons include Seneya and Tisbie, but no Richard. No chance to forge a New Majority GOP.



You may choose from one each of James Monroe, John Tyler, James Polk, James Garfield, William McKinley, Herbert Hoover, and Gerald Ford. If protecting the hemisphere, annexing Texas, and feeding Belgium are your priorities, these are your men. Be warned: They carry a high risk of assassination, or assassination attempts. There is also one Franklin D. Roosevelt Jr., who must be some sort of relative; FDR's son and namesake, a moderately unsuccessful New York politician, died in 1988. This seems like another false positive, yet why? Kinship boosted the chances of John Quincy Adams, Benjamin Harrison, and W.—to say nothing of the first FDR, fifth cousin of TR. The high hurdle of the odd first name is also just cleared by one Zach Taylor, and one Frank Pierce. There are two Andrew Jacksons, two William Tafts—I do not vouch for middle names—and two George Bushes. Three William Harrisons are ready to serve, which is nice, since the first one died after only a month in office. Johnsons cover three and a half pages of the phone book, of whom no fewer than five are Andrews; most historians would say that one Andrew Johnson was more than enough. There is no Lyndon, however, though there is a Luiz. There are six James Carters, which recalls the insulting formality of the old *Pravda*, flagging him as a tool of the bourgeoisie despite the peanut shells in his pants pockets. There is almost a page of Adamses, including Adams's Sensual Whips (we shall walk in Cupid's grove together, indeed). Eight of the Adamses are Johns. These too may be descendants, since there are many in the land. The rangers at the Adams National Historical Park in Quincy tell me that when they show up and stand by one of the old portraits, the resemblance is freakish; that nose and forehead have beaten every gene they have come up against. The eight John Adamses are outnumbered only by the nine John Kennedys.

That is a lot to choose from, yet there are still gaps. The Madison name has had a good run here: Madison Avenue, Madison Square Garden, the Madison Cigarette Store, and the Madison Qi Gong Center, yet no James. There is an Alexander Hamilton, so most of the *Federalist* can be rewritten. There are nine McCains, plus one McCaine and three McKains (variously punctuated), but no Johns, and no Obamas at all, disregarding Obama for America. We have but two Palins, neither of them Sarah, and no Bidens, passing directly from M. Bidelstach to Burt Biderman.

I don't know how many of our presidents are 35 years old and natural born citizens. But I think it would be cute for *New York* magazine to round them up for a group shot. Any historical place mat will show you what our presidents looked like; they would give us a slice of what America looks like. Both sides now. **NR**

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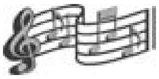

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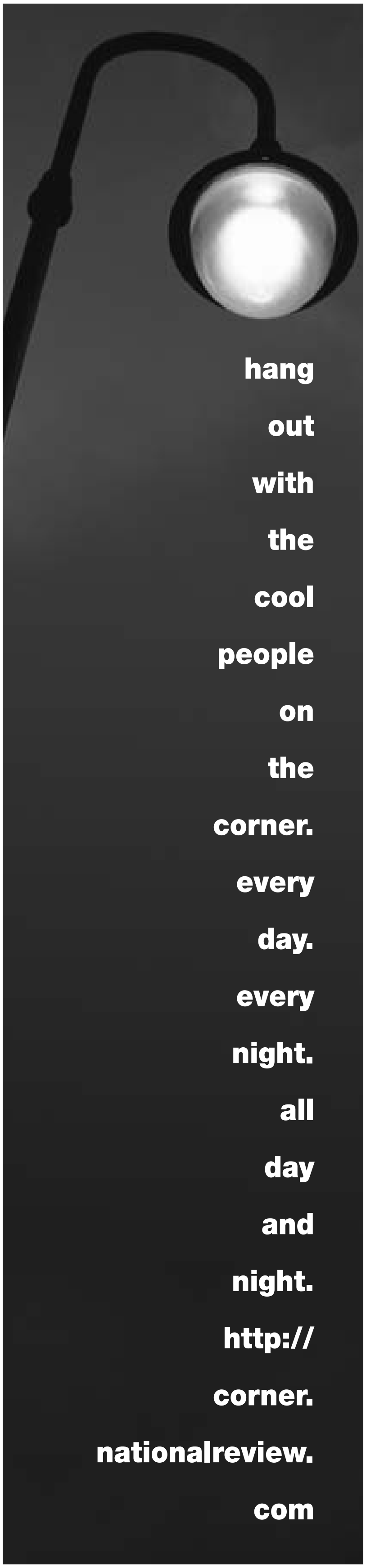

but enough about you

CHRISTOPHER BUCKLEY

Hanks a Million!

Every now and then, America just strips herself naked and wiggles her cute *derrière* at you in all its glory. This happened the other night whilst I was chopping garlic in the kitchen. I was watching Henry Paulson—a.k.a. “King Henry” (*Newsweek*) or, as he was known on the playing fields of Dartmouth, “The Hammer”—manfully explaining to Tom Brokaw why he needs to give AIG $85 gazillion of my and your dollars.

In the next instant, on came Robert Wagner—the actor, not the deceased mayor of New York—in his star role as spokesman for a company that sells “reverse” mortgages, namely, you give them your house, and they give you a nice little monthly allowance. What if you live too long? Well, as Mr. Wagner said with a big, shiny grin, operators are standing by to answer “*all* your questions!”

At this point, having chopped off my thumb, I was able to contemplate, while stanching the wound in cold water, that I had just been afforded an epiphanic glimpse into our next mortgage crisis: 90-year-old boomers in wheelchairs being heaved into the street by Mr. Wagner’s operators. Is this a great country or what?

My favorite part of these bailouts is when they—that is, the best and brightest minds in government—explain with beetling brows that it would be far worse if they *didn’t* bail out the failing entity du jour. *It is too important to allow to fail. The ripple effects would be—devastating.*

As my dear old dad used to say, “If you owe the bank a million dollars, you have a problem. If you owe the bank $100 million, the *bank* has a problem.” How right he was. *Milton, thou should’st be living at this hour. England hath need of thee . . .*

What do you know—this morning’s paper has a big front-page story about how dozens of Wall Street firms are clamoring to be included in the bailout. And why shouldn’t they? They may not actually be failing as a result of having bought up and securitized (my favorite neologism) rotten mortgages, but why should that stop them banging the tin cup? *What about us? We want some of that!* It’s almost enough to make you want to vote for Joe Biden, Restless Mouth Syndrome candidate, who announced the other day that paying taxes is a form of “patriotism.” But really, it’s hard these days to know whom to be angriest at.

The lending institutions who sold the stinky mortgages in the first place? As one of the founders of this magazine, Willi Schlamm, said so memorably, “The trouble with capitalism is capitalists. The problem with socialism is socialism.”

Or at the numskull American public who bought the mortgages? *Gee, this is great! No money down and the value of the house will just keep going up and up? Hey—hey! Whaddya mean you’re “foreclosing” on me?* But don’t hold your breath waiting for Obama or McCain to say, “You know, really, some Americans are just dumber than a mud box.”

Should we be most angry at the Wall Street firms that bought up the mortgages and turned them into securities and packaged them into what Warren Buffett, apparently the only actually “wise” wise man in America, described back in 2003 as “financial weapons of mass destruction”? (Buffett, for the record, is an Obama supporter. But then Obama did appoint to his vice-presidential selection committee Jim Johnson, the man who led Fannie Mae into the Valley of Derivatives in the first place.)

Is this what St. Ronald Reagan meant by ‘the magic of the marketplace’?

Surely it’s okay to be angry at Richard Fuld, former head of Lehman Brothers, whose compensation the year before he presided over the firm’s demise amounted to the gross domestic product of a mid-sized African country. But then McCain’s titular campaign chairman, Carly Fiorina, drove the stock of Hewlett-Packard down by half and walked away with a $42 million golden parachute. Asked about this, Old Grouchypants said, “I think she did a good job as CEO in many respects. I don’t know the details of her compensation package.” He couldn’t have been in a good mood since it had just been revealed that his campaign manager had raked in hundreds of thousands of dollars from a Fannie and Freddie advocacy group. Details, schmetails! Country first!

Or should we be *most* angry at Old Reliable, the U.S. Congress, which, in return for bazillions in campaign contributions, refused to a) step in and enforce existing regulations or b) enact new regulations? Personally, I’m always willing to give Harry Reid and Nancy Pelosi a good boot in the shins, but there are plenty of Republicans in the Congress, too, who declined to intervene when Wall Street began devising these FWMDs that are so complicated, apparently, that even a mind like Paul Krugman can’t understand them.

Well, I’m confused. Is this what St. Ronald Reagan meant by “the magic of the marketplace”? Or is this Adam Smith’s invisible hand, goosing the body politic in the you-know-where?

Either way, I’ve decided that I’m in favor of bailouts. Especially bailouts for authors whose books tank.

Secretary of the Treasury Henry Paulson and Fed chairman Ben Bernanke announced today that they would buy up the stock of Buckley’s unsold novel for $700 gajillion.

“There were those who said we ought to let Buckley’s awful book crater,” Paulson and Bernanke said in a joint statement before a visibly agitated House Financial Services Committee. “And that it might keep him from writing more stinkeroos. But in the end, we decided that the ripple effects would be devastating to the book economy.”

Barnes and Noble, Borders, and Amazon.com praised the move, saying that the Treasury and Fed’s swift action had staved off “literary Armageddon.” **NR**

Mr. Buckley can be reached at christobuckley@yahoo.com.

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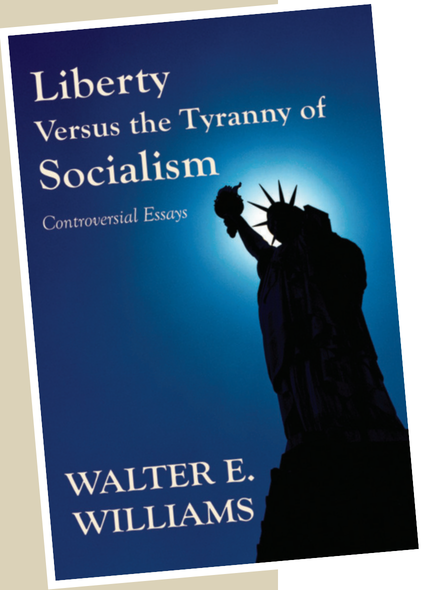

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Walter E. Williams is the John M. Olin Distinguished Professor of Economics at George Mason University and a nationally syndicated columnist.

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“A woman’s work is never done.”

THAT’S WHAT MANY WOMEN FIND OUT
WHEN THEY WANT TO RETIRE.

The number of women over 65 who are still working has increased by more than a third in the past ten years. Why are retirement-age women increasingly chained to their jobs?

Well, women live longer than men, so their retirement savings have to stretch farther. Women earn less – 77¢ for every dollar a man earns – so they save less. And they work fewer years – the average woman spends 11 years out of the workforce caring for children or elderly parents.

How can we help women find a way to retire when they want to? **Allstate has some thoughts:**

1. MAKE EVERY EARNING YEAR COUNT.
Right now, only 47% of working women participate in a company retirement plan. American businesses can do much more to help that number grow. 401(k) programs – such as company matches and automatic enrollment – as well as encouraging participation by part-time workers, are all proven ways to help build savings.

2. EDUCATE WITH FINANCIAL SEMINARS.
Knowledge is power: 53% of women who have a retirement plan said they would increase their annual contributions after they attended a financial education seminar at work.

3. PROMOTE SPOUSAL IRAs.
Non-working women can invest up to $5,000 per year to grow tax-deferred in a Spousal IRA, as long as there is a spouse in the workforce.

These ideas can help women work longer, not because they have to, but because they want to. **You can learn more about this issue and join in the debate at www.WSJ.RetirementDebate.com.**

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